



LGIP QUARTERLY MEETING & CONFERENCE CALL

11.3.2011

OFFICE OF THE ARIZONA STATE TREASURER



AGENDA

- Earnings
- LGIP Performance
- New LGIP Product
- Endowment Performance
- Endowment Distribution
- State Cash Flow
- Arizona and US Economic Update: Jim Rounds, Senior V.P. Elliott D. Pollack & Company
- Q & A



INVESTMENT PHILOSOPHY

SAFETY

before

LIQUIDITY

before

YIELD



EARNINGS FOR FY 2012 Q 1

\$30,881,300





LGIP PERFORMANCE

Q1FY 2012



POOL 5

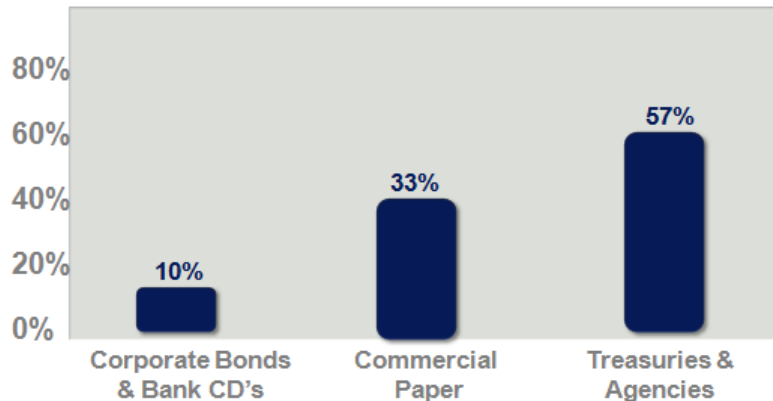
- \$1.28 Billion Assets as of 9/30/2011
- Net Asset Value - \$.9997 9/30/2011
- Diversified investments weighted to highly rated Commercial Paper first, Repurchase agreements second, and Agency/Treasuries third

Liquidity

Weighted Average Maturity: 29 days on 9/30/2011

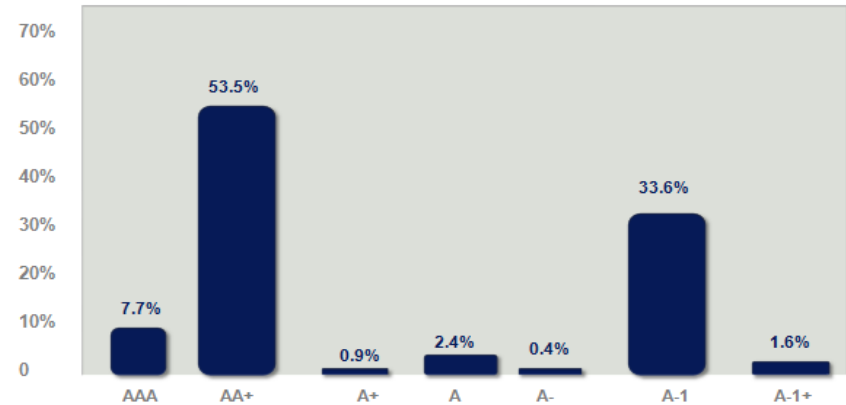
DURATION: 100% from 0-1 yrs

ASSET MIX:



Safety

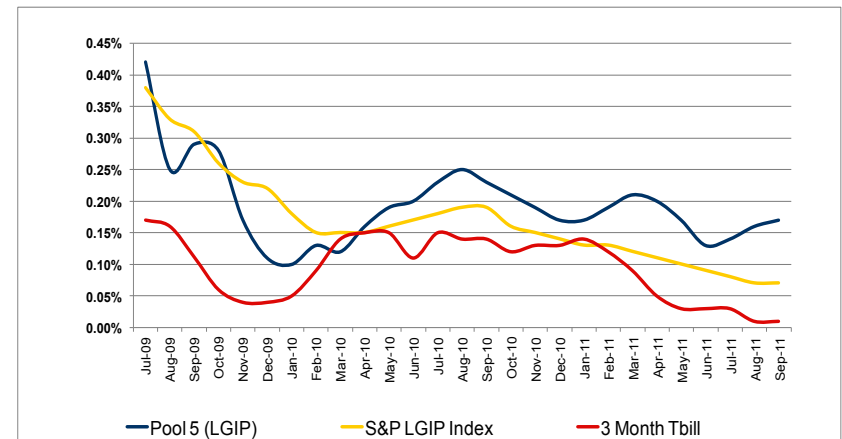
Continues to receive highest rating from Standard & Poor's: AAAf/S1+



Yield

.16% YTD

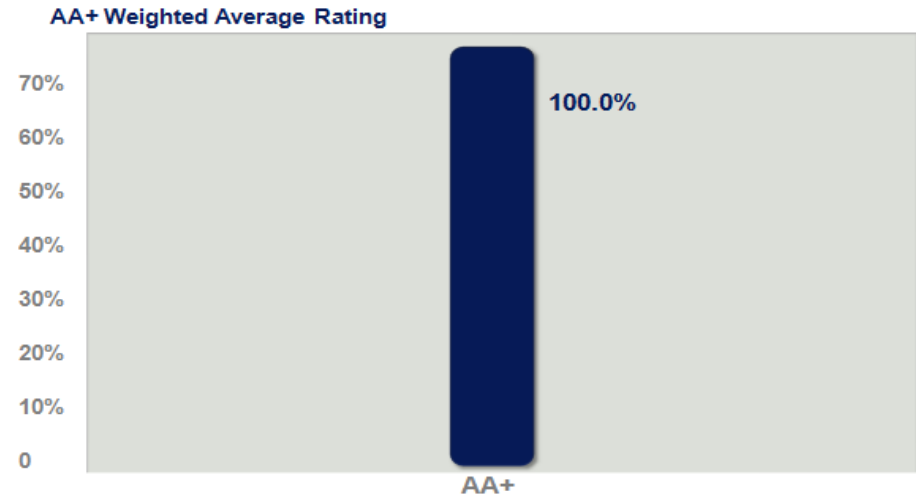
.07% YTD (S&P LGIP Index)



POOL 7

- \$1.5 Billion Assets as of 9/30/2011
- Net Asset Value - \$ 1.000 9/30/2011
- All securities backed by U.S. Government

Safety

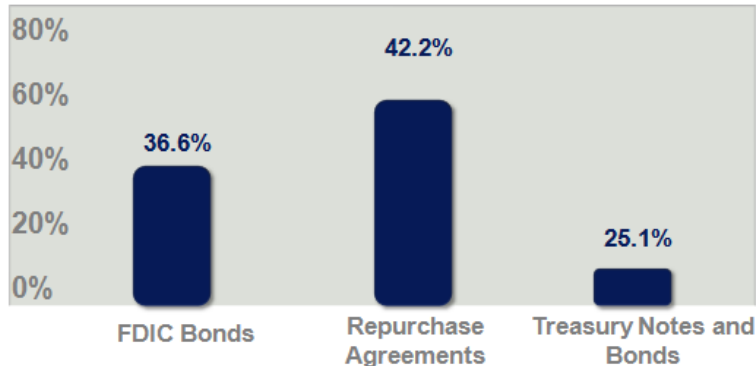


Liquidity

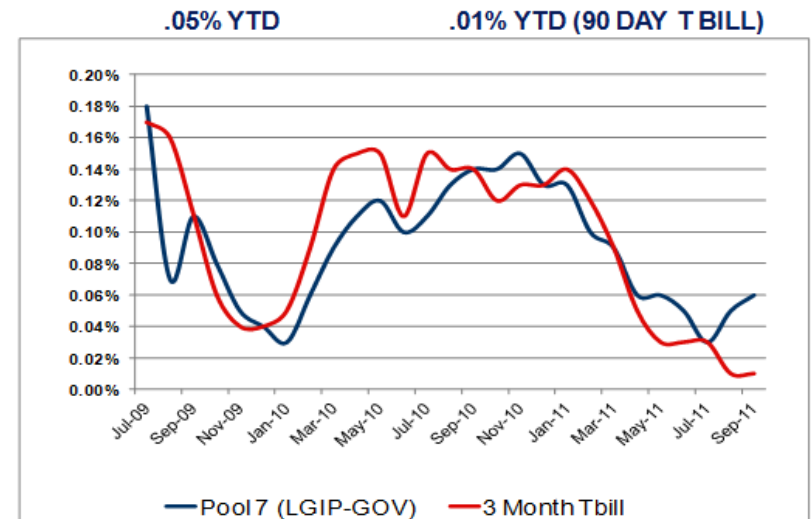
Weighted Average Maturity: 42 days on 9/30/2011

DURATION: 100% from 0-1 yrs

ASSET MIX:



Yield



POOL 500

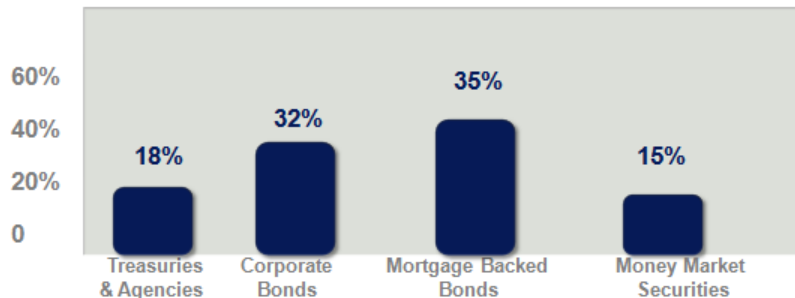
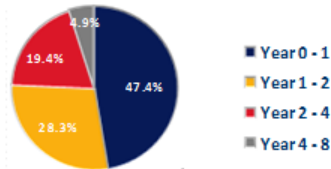
- \$216.3 million as of 9/30/2011
- Floating Net Asset Value - \$1.0388 as of 9/30/2011
- Keep maximum exposure to any credit at 2.5%

Liquidity

Effective Duration: 1.4 years on 9/30/2011

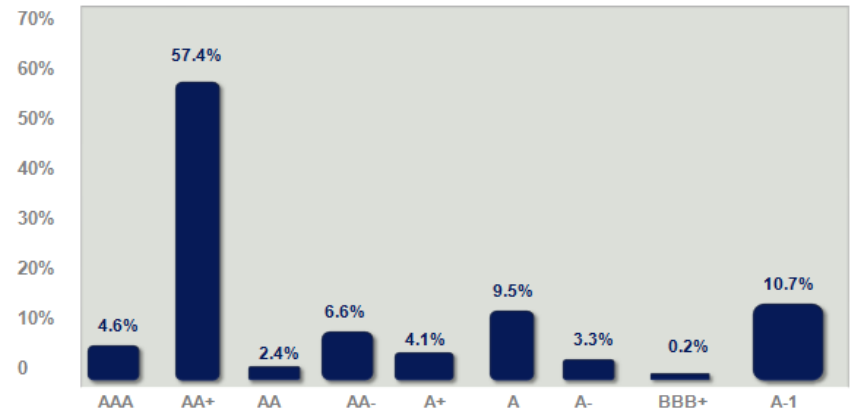
DURATION:

ASSET MIX:



Safety

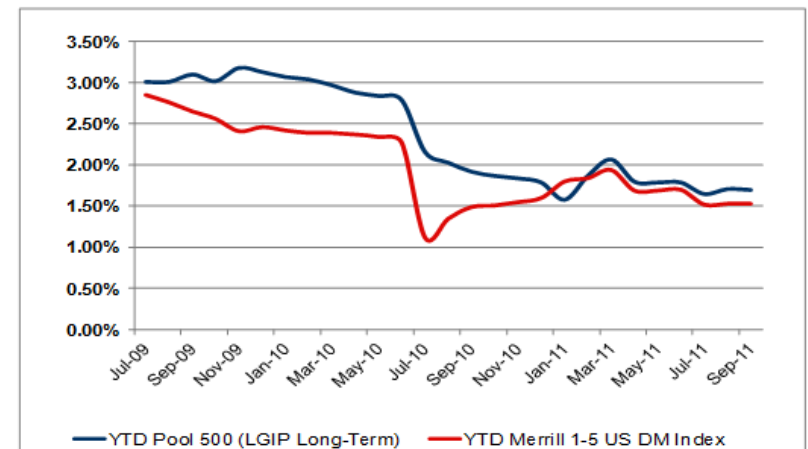
AA Weighted Average Rating



Yield

1.70% YTD

1.53% YTD (Index)



POOL 700

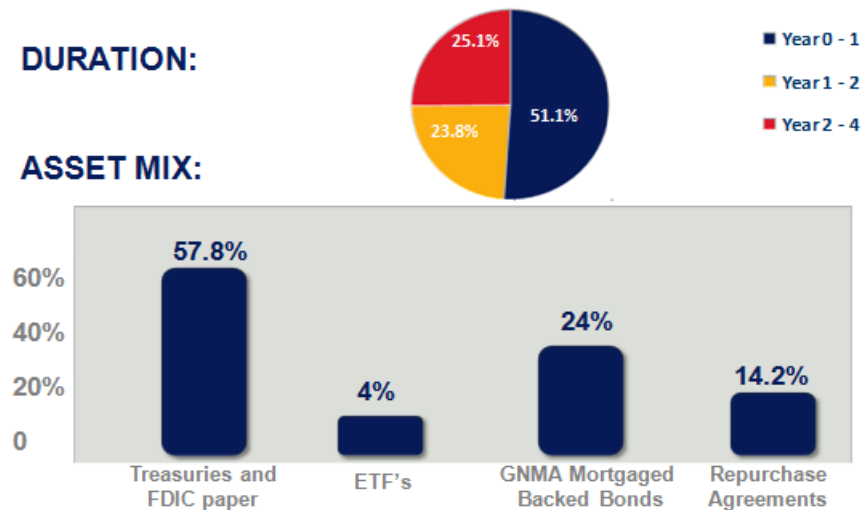
- \$122.5 million as of 9/30/2011
- Floating Net Asset Value - \$ 1.0138 as of 9/30/2011
- All securities backed by U.S. Government

Liquidity

Effective Duration: 1.12 years on 9/30/2011

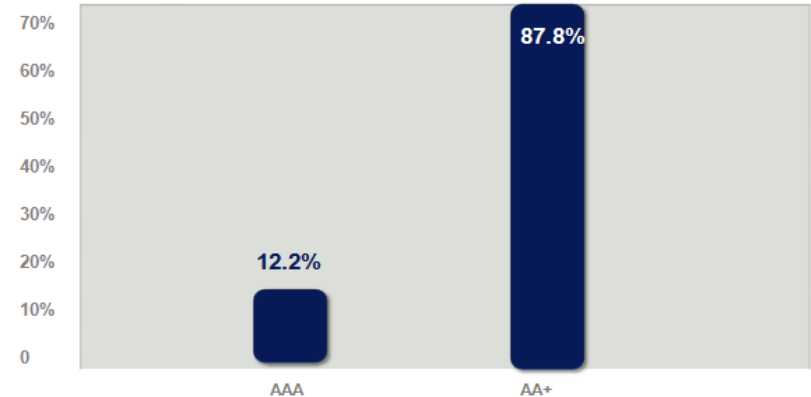
DURATION:

ASSET MIX:



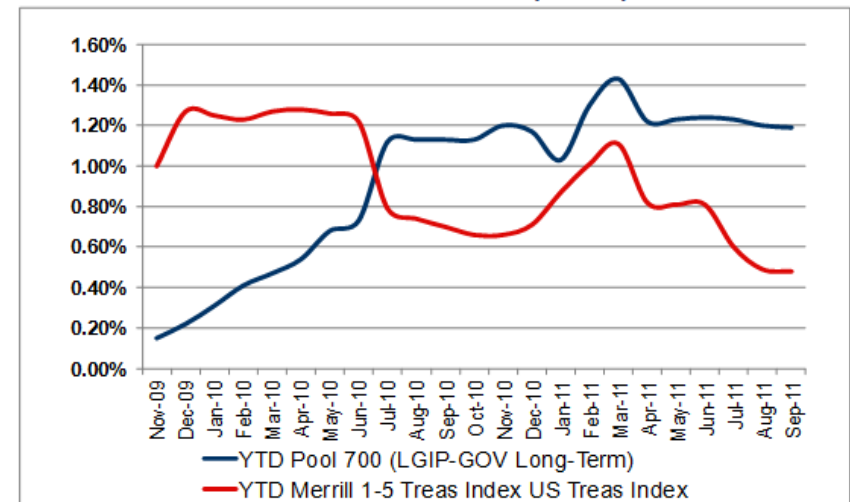
Safety

AA+ Weighted Average Rating



Yield

1.19% YTD 0.48% YTD (Index)





LGIP NEW PRODUCT



Separately Managed Accounts (SMAs)

- Designed for those seeking a customized investing solution based on your risk tolerance, liquidity needs and duration target
- Monthly Liquidity
- Requires \$100 million minimum deposit
- Pre-Meeting with Portfolio Manager to set up Account and determine investing needs
- Costs: Standard 6 basis points, plus yearly accounting charges of about \$20,000 that will come out of earnings (equivalent to 2 basis points)



POOL 12

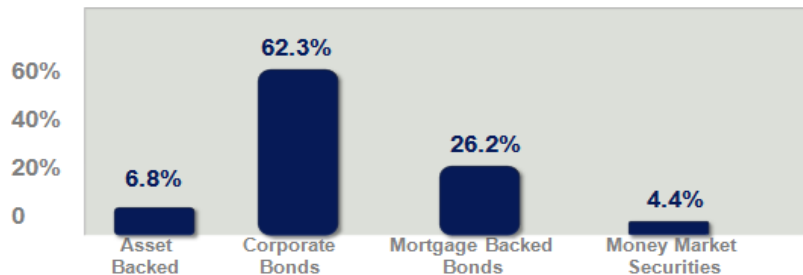
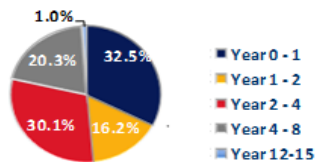
- \$285.6 million in assets as of 9/30/2011
- Net Asset Value - \$1.0214 9/30/2011
- Invests in A and above credit. Duration is at 2.29 years vs. benchmark of 4.96 years
- Client requires 20% of assets under one year maturity

Liquidity

Effective Duration: 2.29 years on 9/30/2011

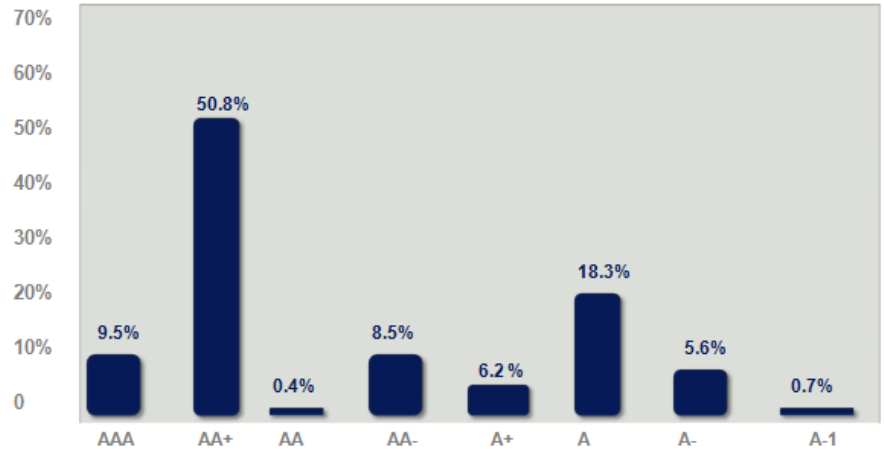
DURATION:

ASSET MIX:



Safety

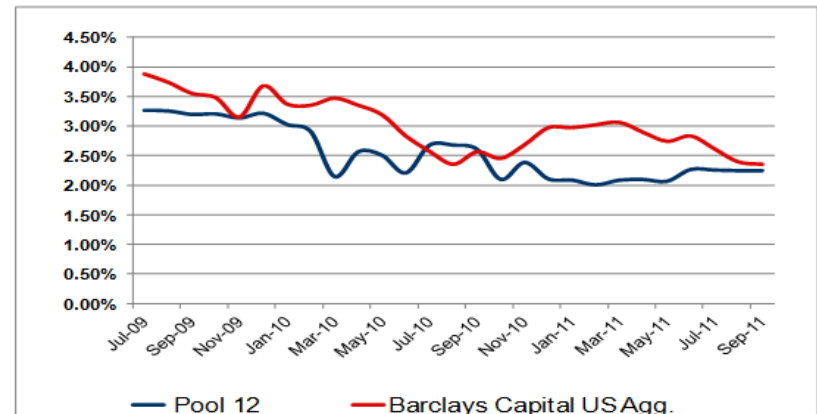
AA Weighted Average Rating



Yield

2.25%

2.35% (Benchmark)





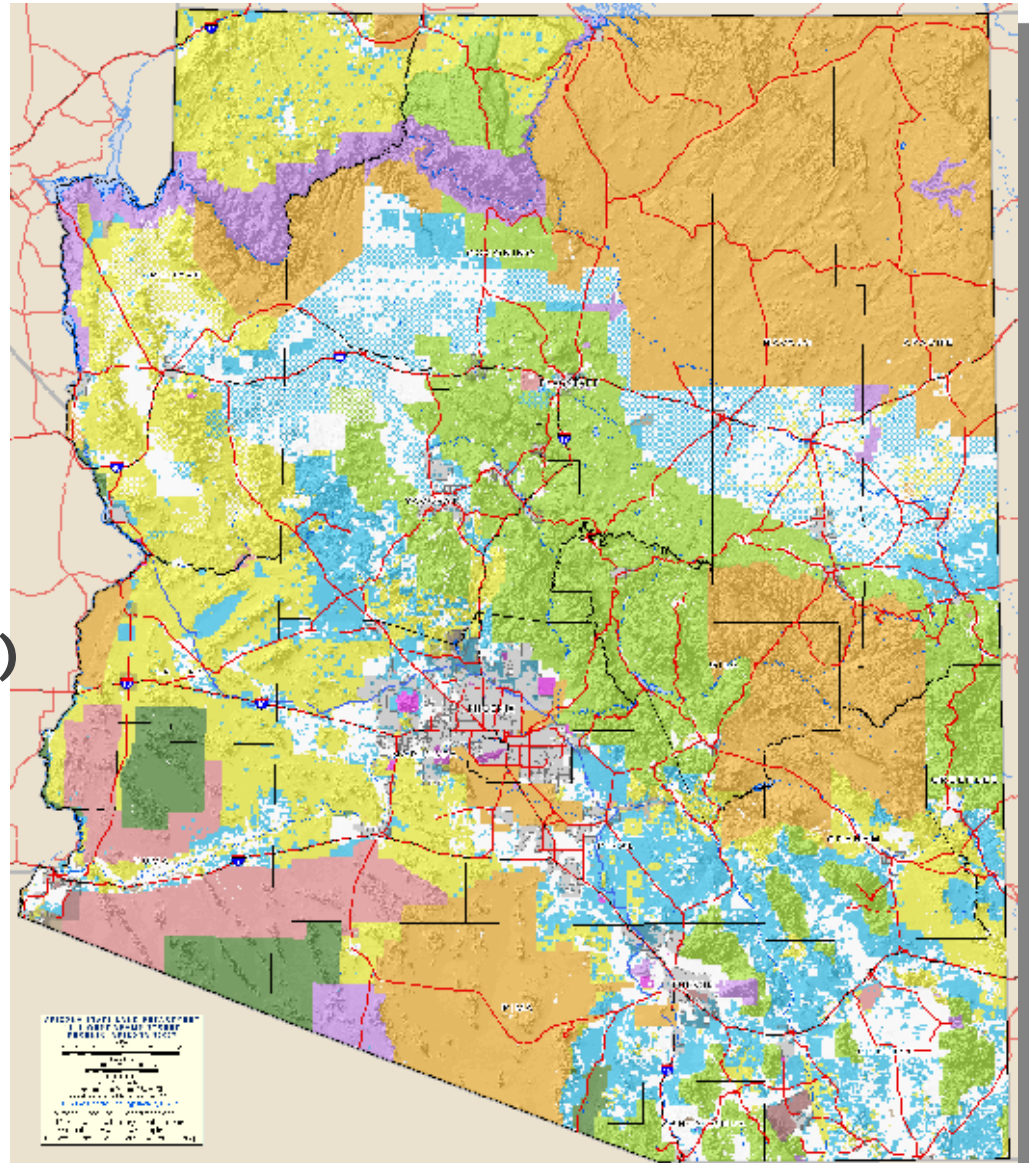
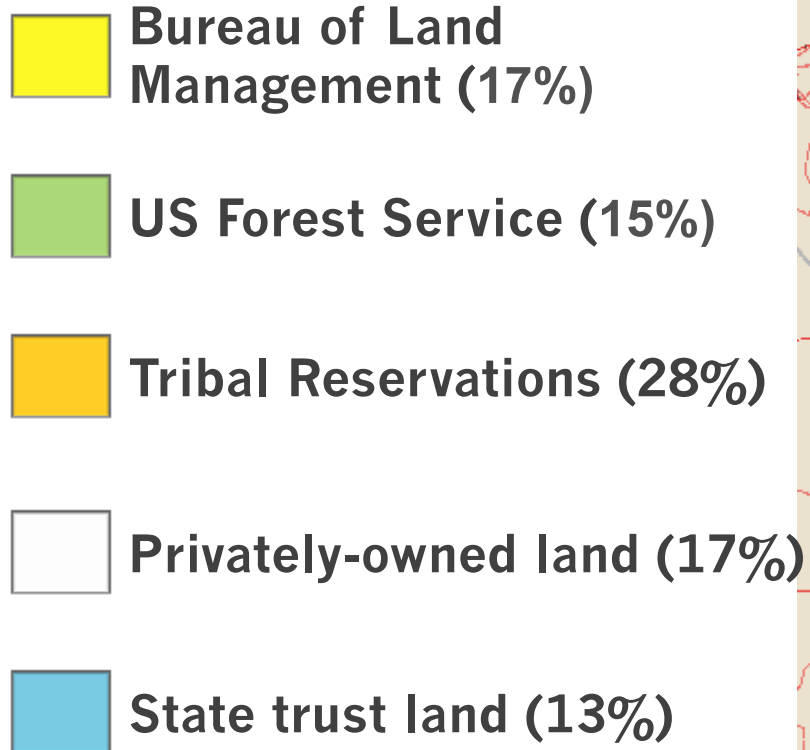
Endowment Performance

Q1 2012

OFFICE OF THE ARIZONA STATE TREASURER

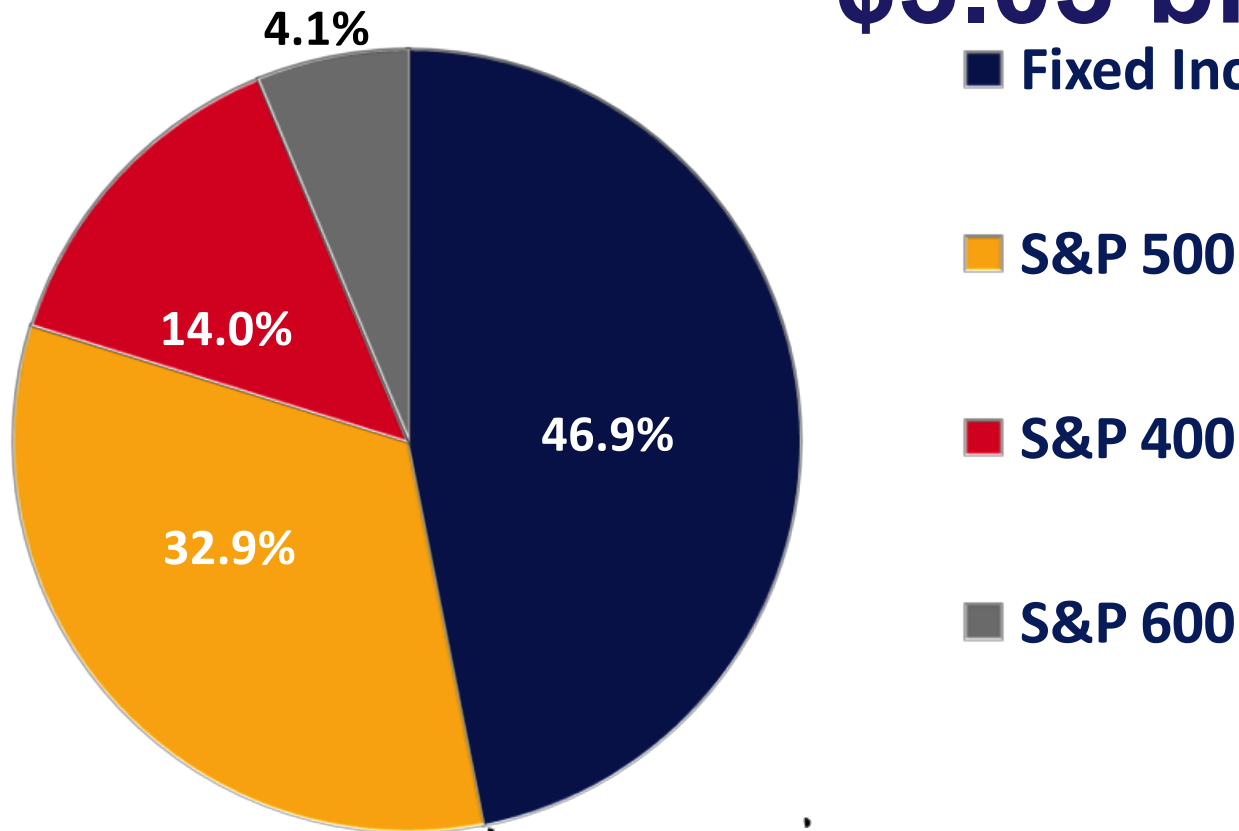


ENDOWMENT TRUST LANDS

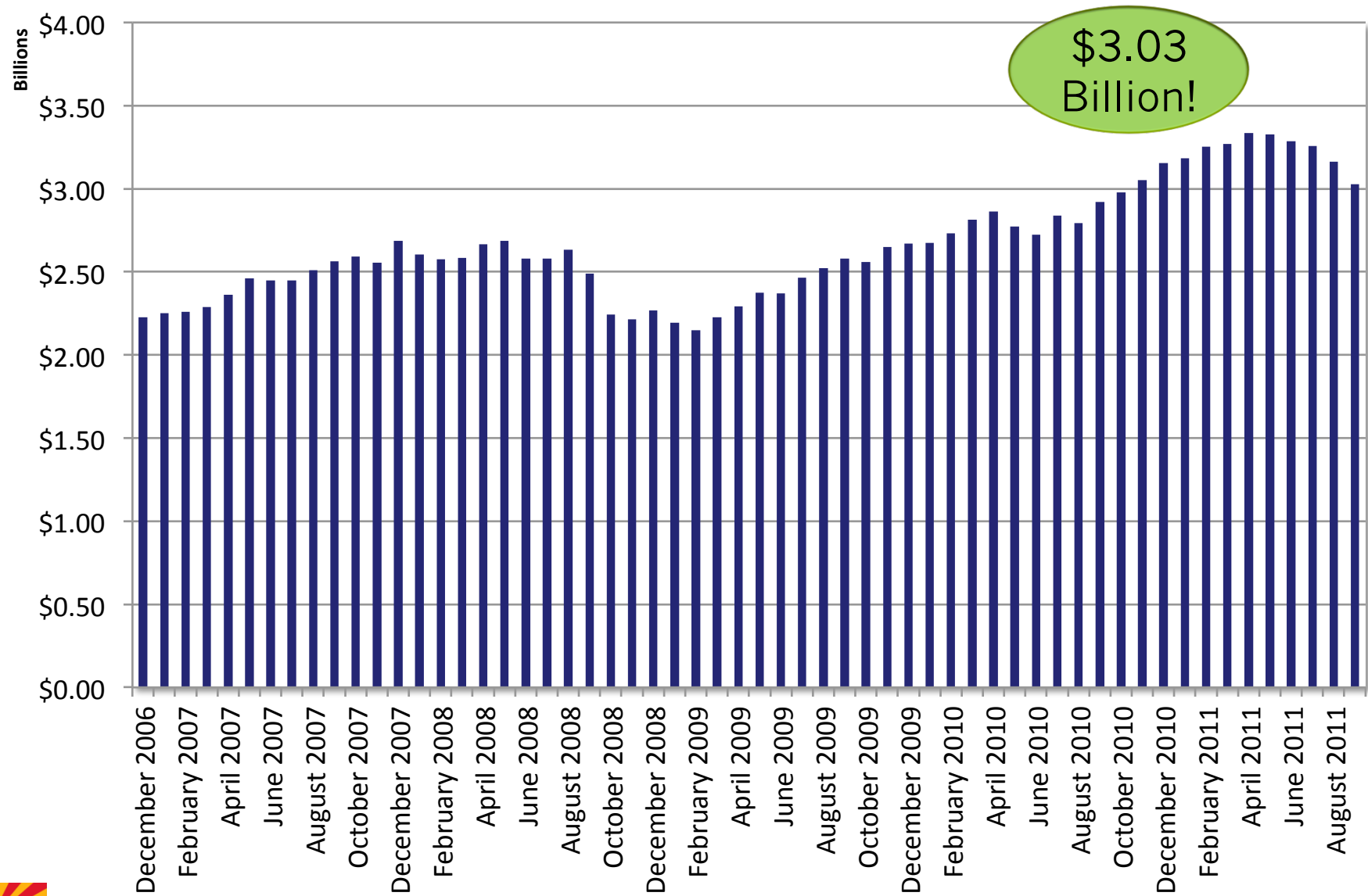


ENDOWMENT ASSET ALLOCATION

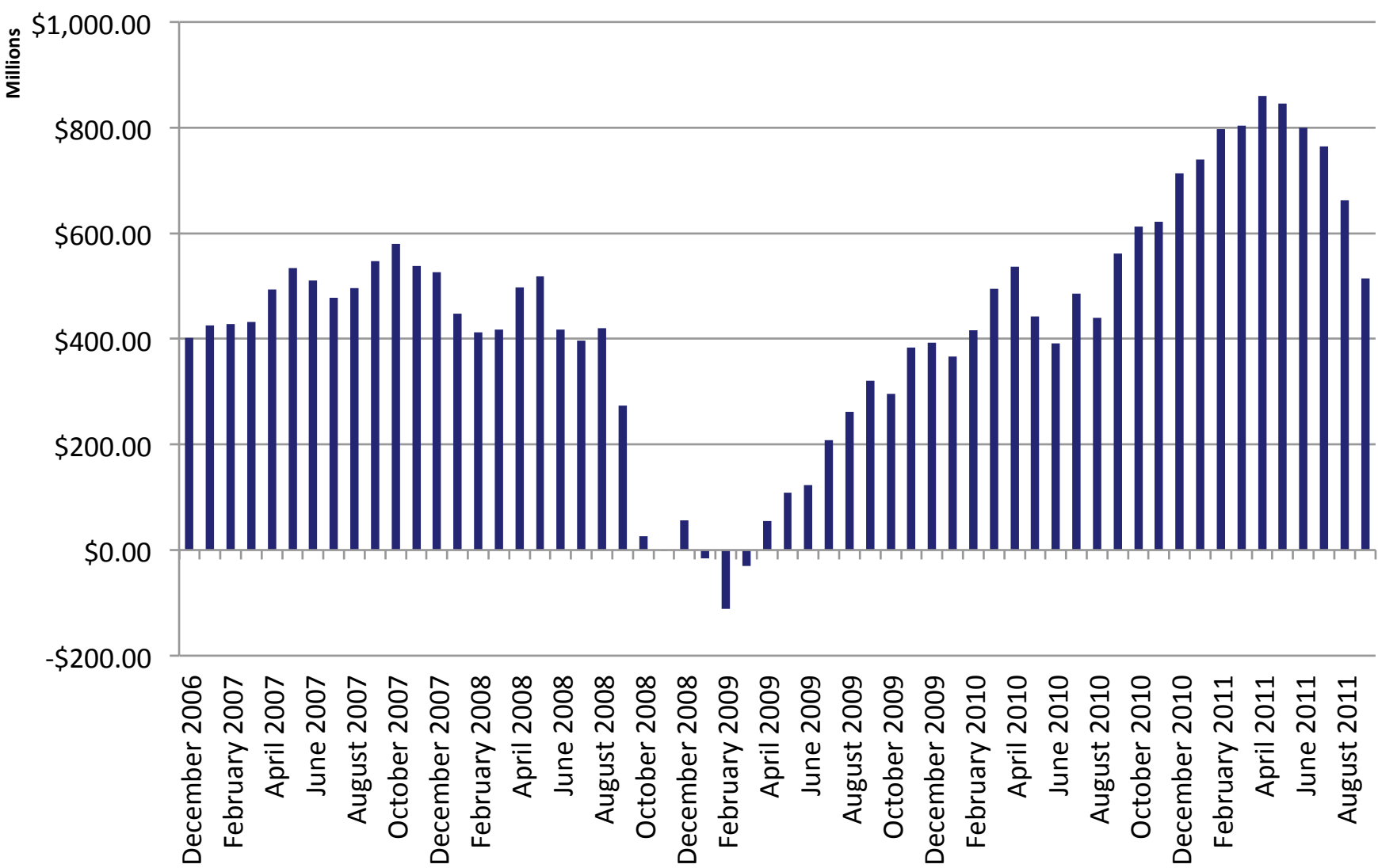
\$3.03 billion



ENDOWMENT MARKET VALUE



ENDOWMENT UNREALIZED GAINS



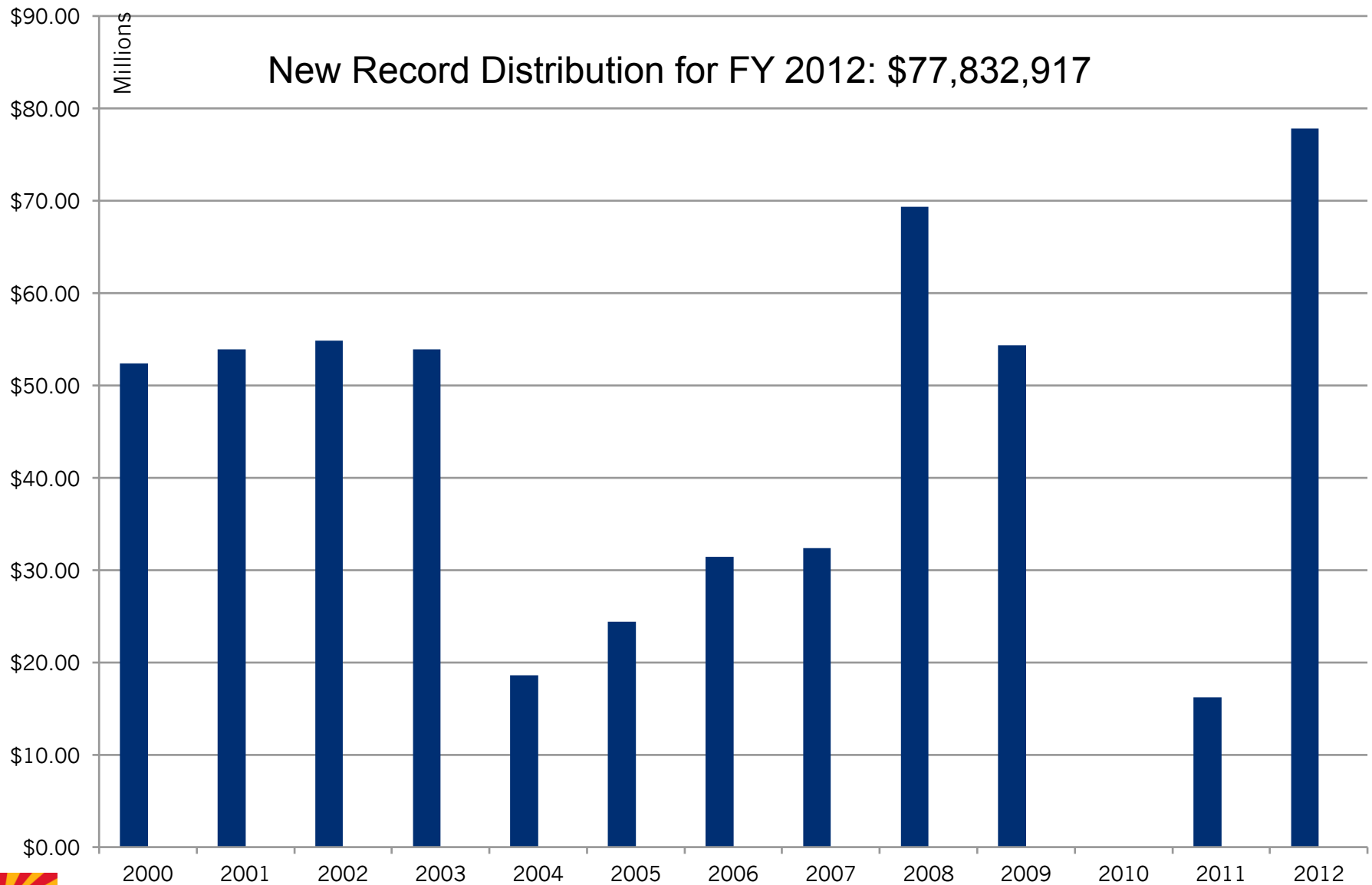


Endowment Distribution

OFFICE OF THE ARIZONA STATE TREASURER



K-12 DISTRIBUTIONS





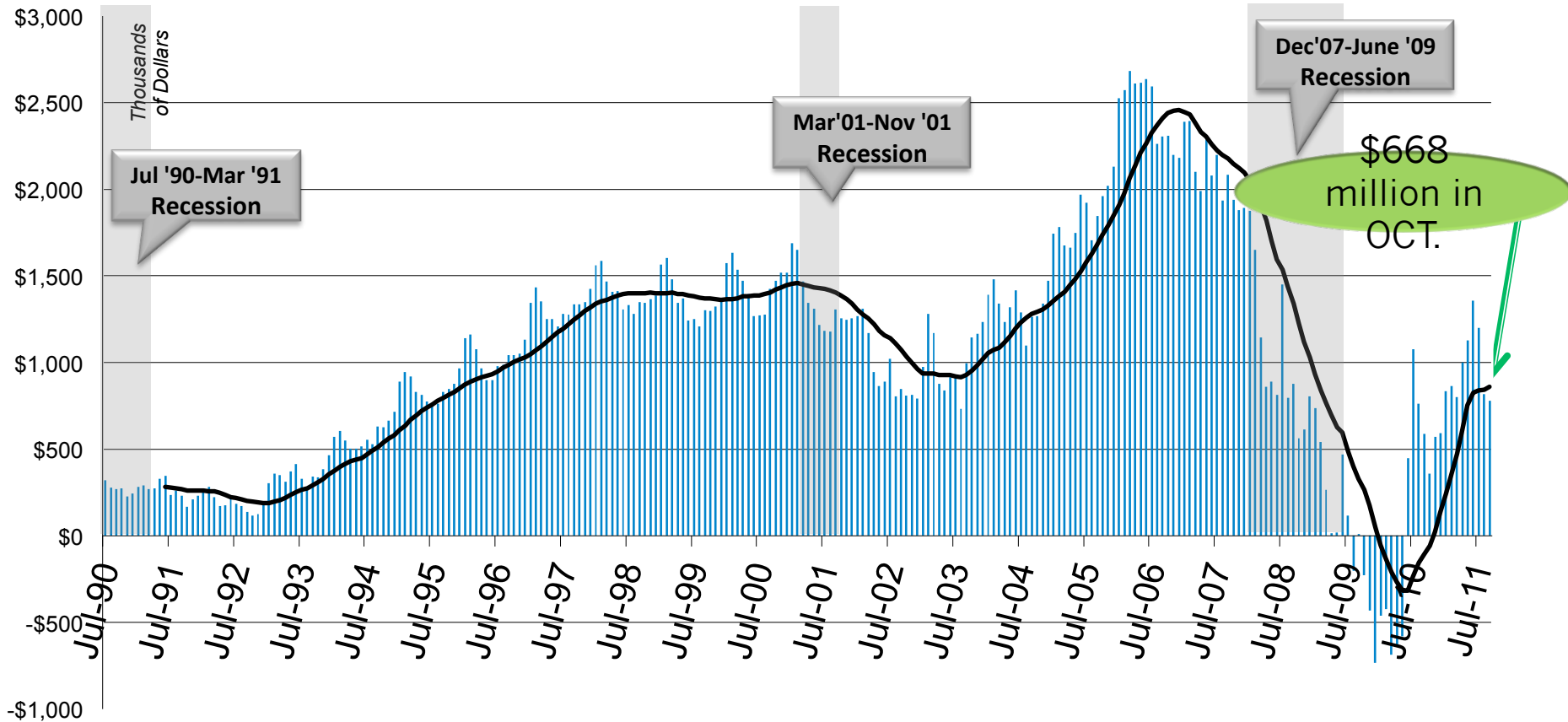
State Cash Flow

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STATE CASH FLOW

TOTAL OPERATING ACCOUNT AVERAGE MONTHLY BALANCE
Up 14% in First Quarter YOY





Special Presentation

Jim Rounds

Senior Vice President
Elliot D. Pollack & Company

OFFICE OF THE ARIZONA STATE TREASURER





QUESTIONS?

OFFICE OF THE ARIZONA STATE TREASURER





Dip or Blip?

**To:
Arizona State Treasurer's Office**

November 3, 2011

**By:
Jim Rounds
Senior V.P., Elliott D. Pollack & Company**



U.S. Conditions



Signs of a Double Dip – Look for Declines in these Main Economic Categories

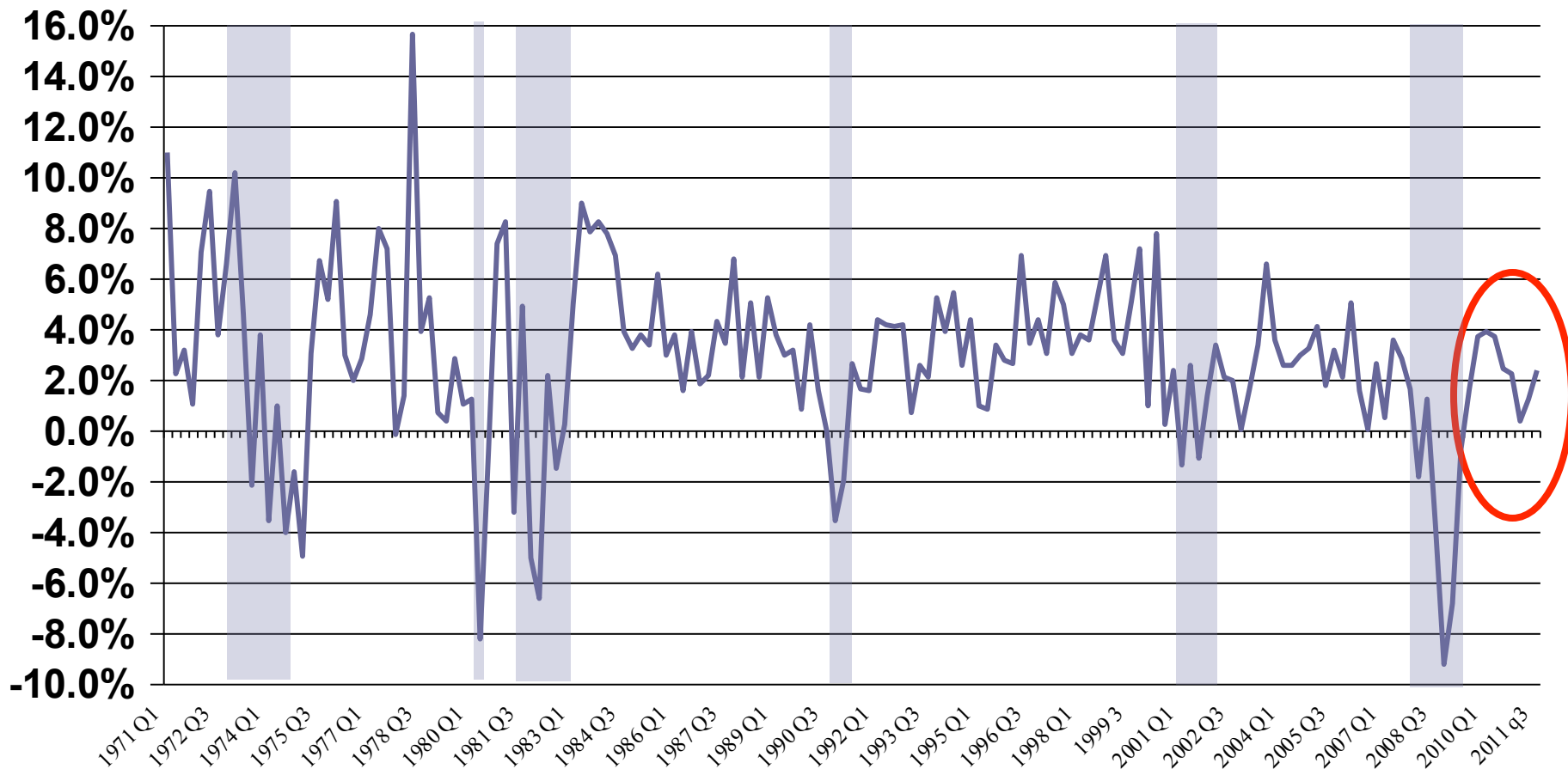
- Real GDP
- Real Income
- Employment
- Industrial Production
- Wholesale – Retail Sales



Real Gross Domestic Product Percent Change Quarter Ago, Annualized 1971 – 2011*

Source: Bureau of Economic Analysis

Recession Periods



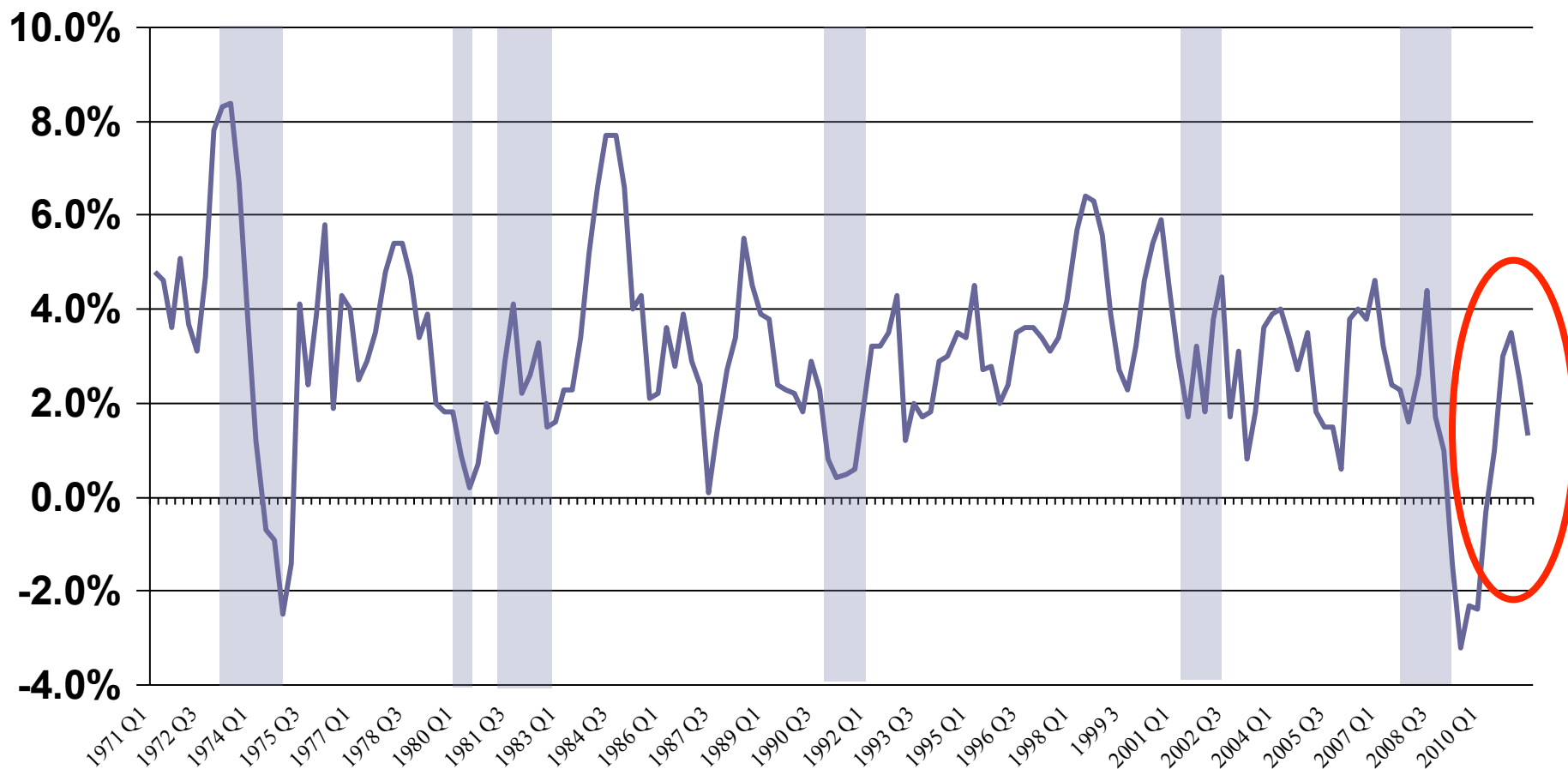
* Data through 3rd quarter 2011



Real Disposable Personal Income Percent Change Year Ago 1971 – 2011*

Source: Bureau of Economic Analysis

Recession Periods



* Data through second quarter 2011



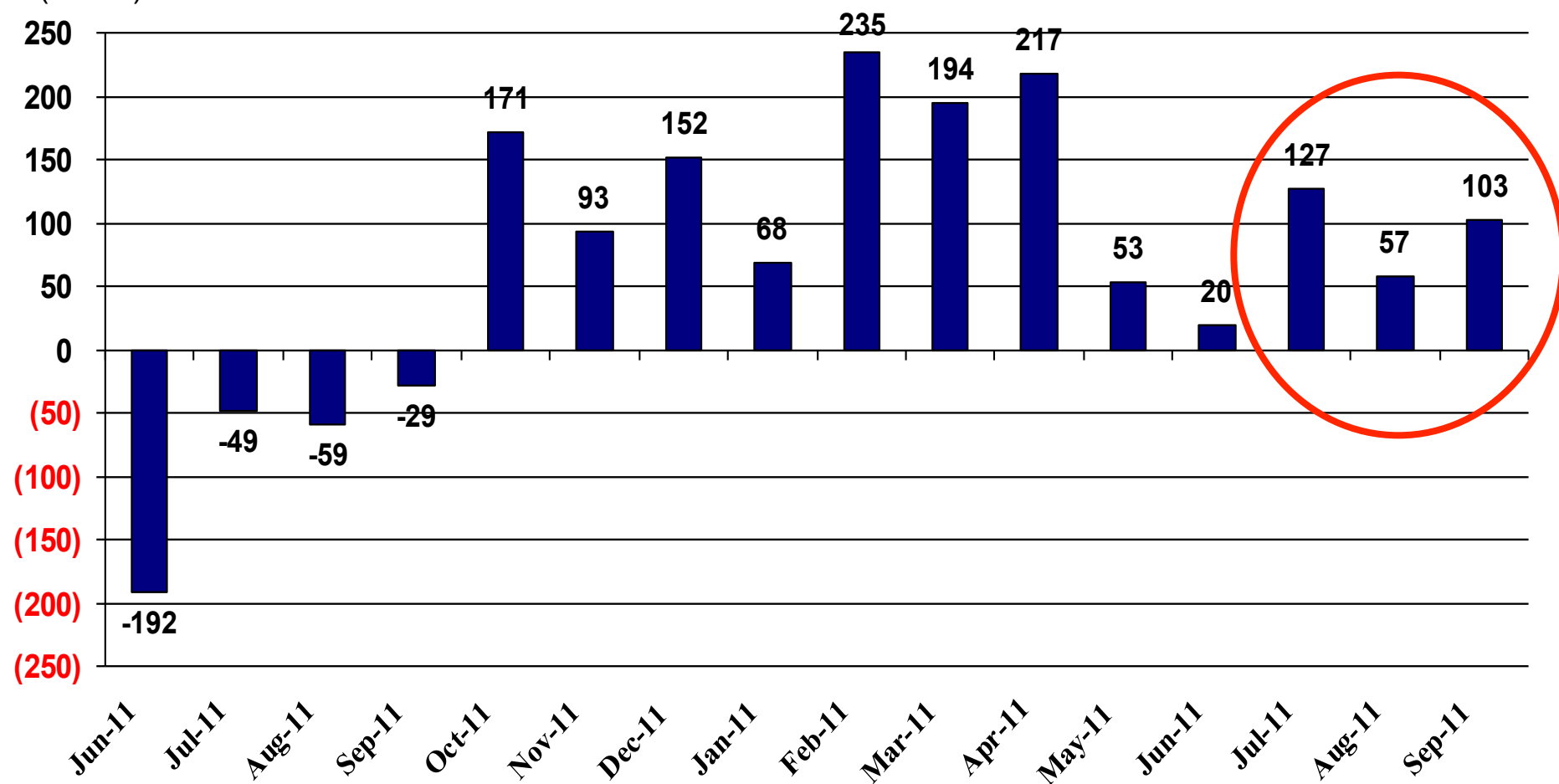
US New Job Data

Change from Prior Month (S/A)

June 2010 – September 2011

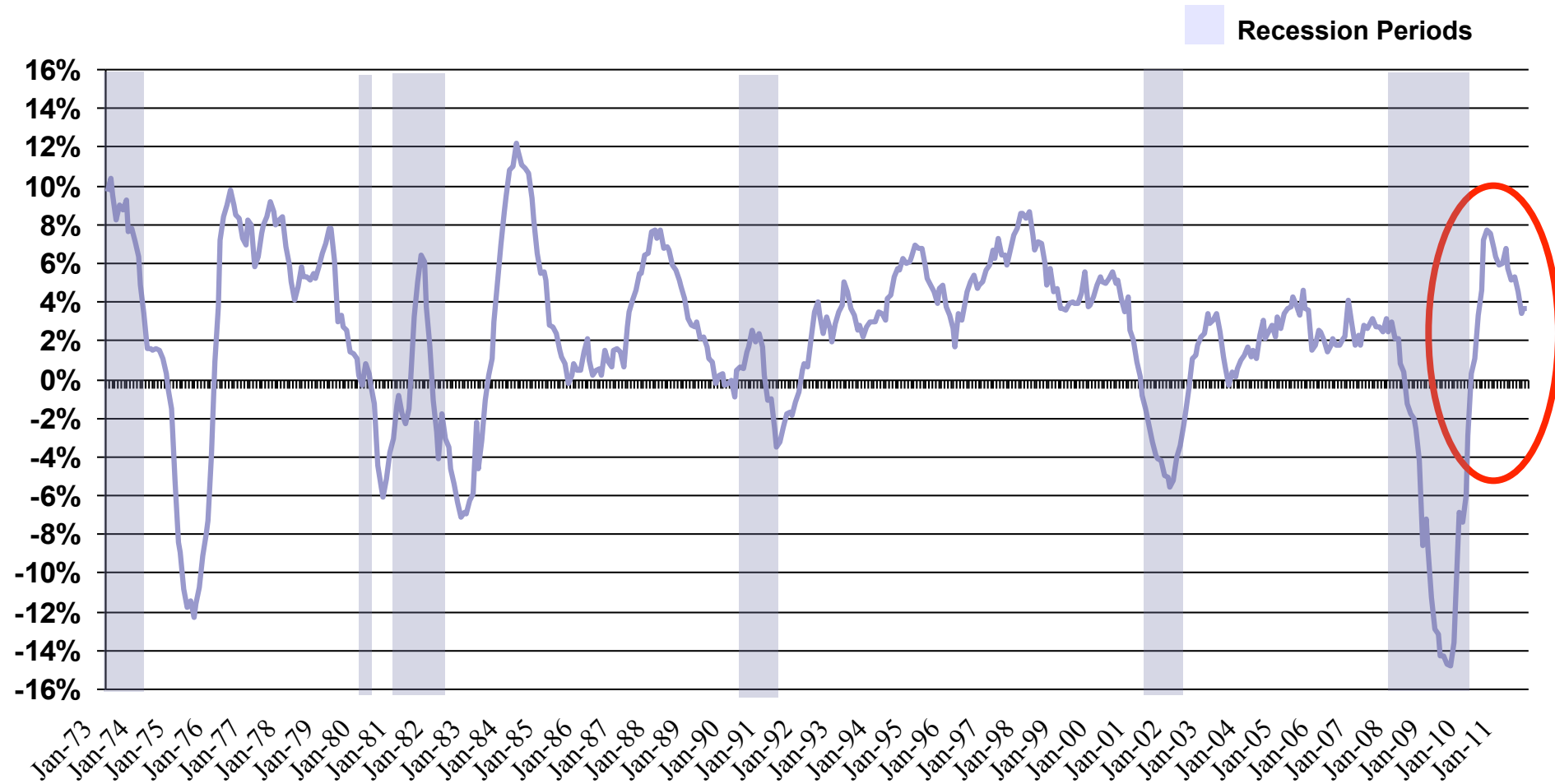
Source: Bureau Labor of Statistics

(000' s)



Industrial Production Percent Change Year Ago 1973 – 2011*

Source: The Conference Board

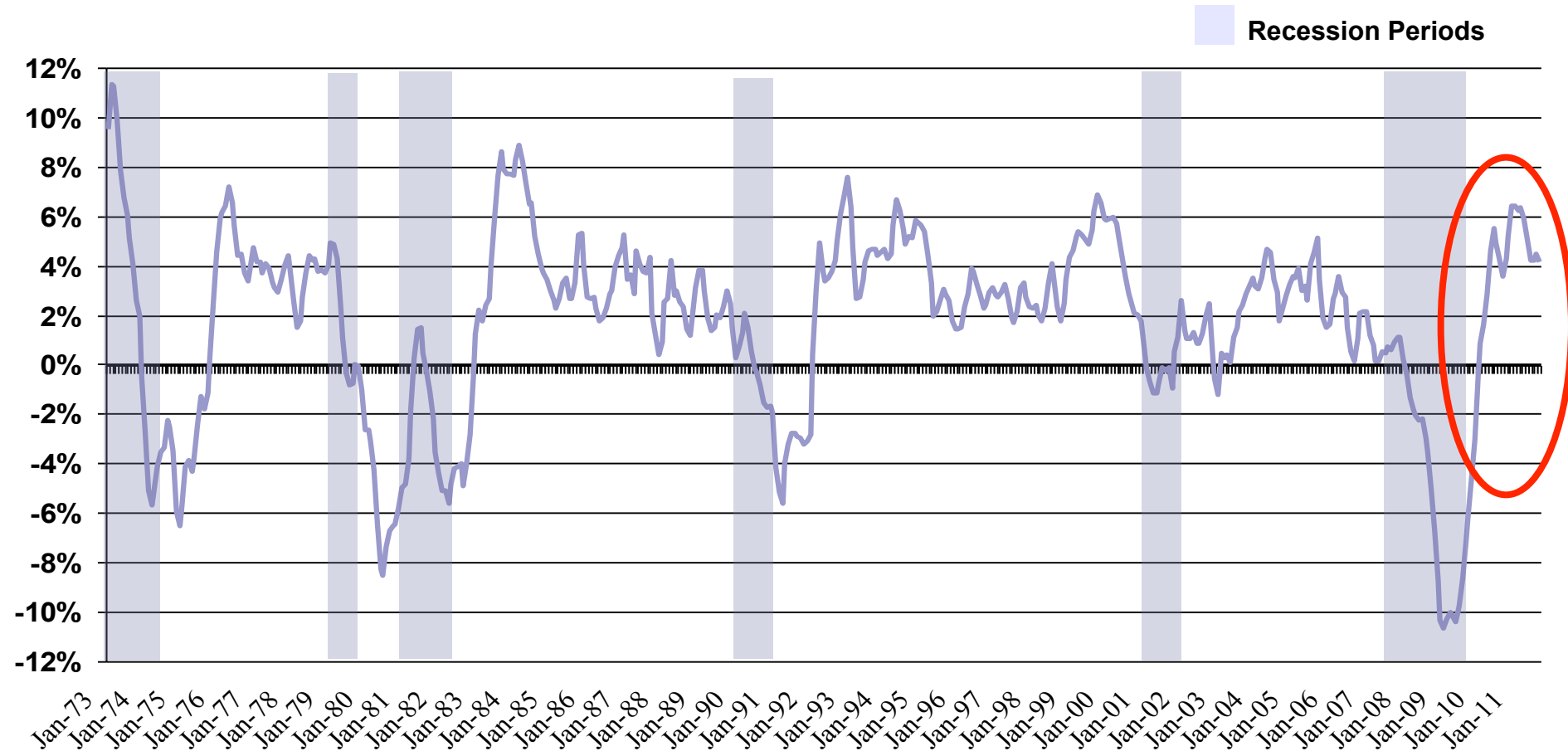


*Data through July 2011



Real Retail Sales U.S. Percent Change Year Ago 1973 – 2011*

Source: Federal Reserve



*Data through August 2011

**Three-month moving average





Recession Indicators Summary:

Still Moving Upward (Just VERY Slowly)

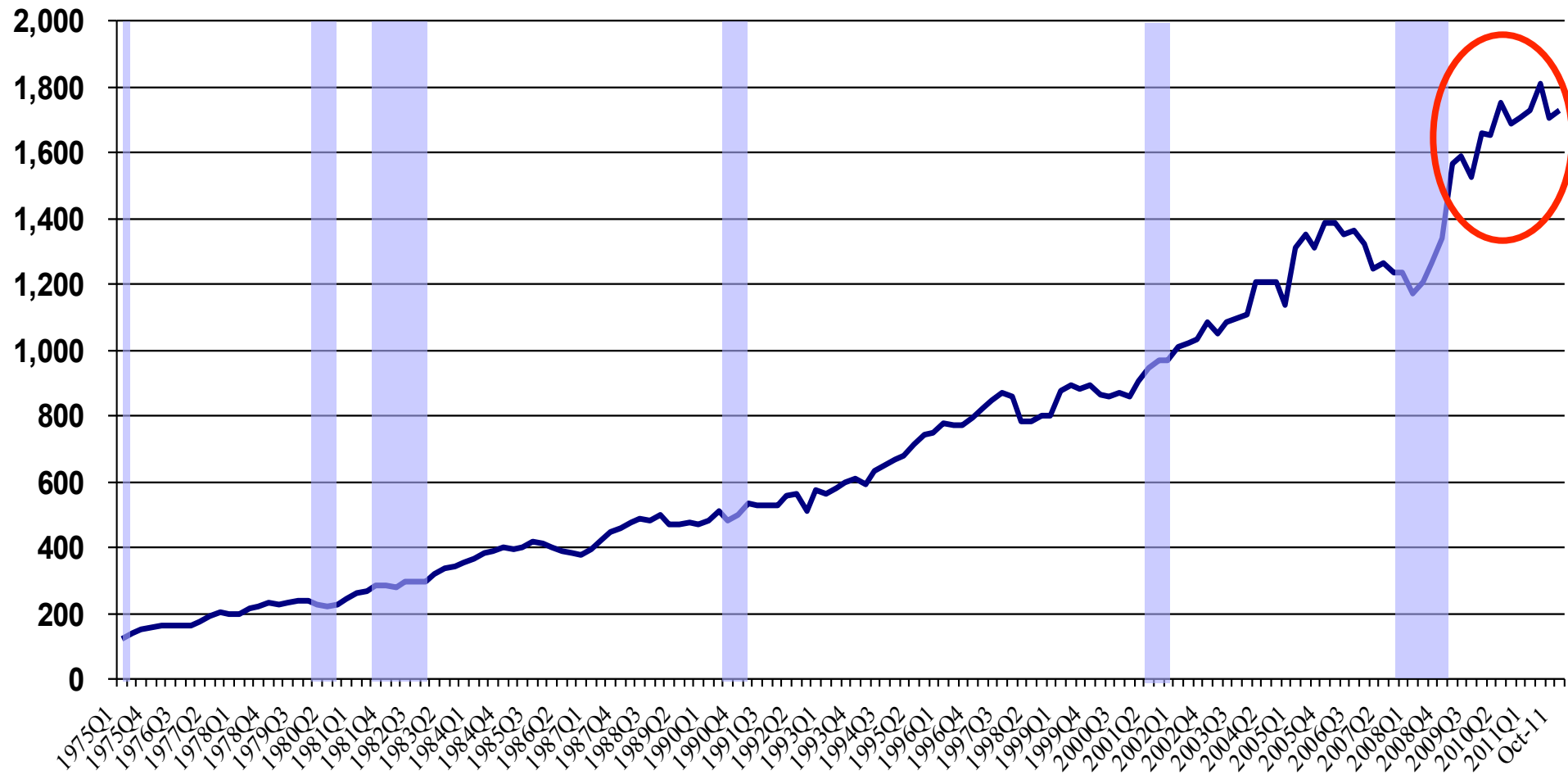
- 
- Real GDP (watch closely early 2012)
 - Real Income
 - Employment (watch closely now)
 - Industrial Production
 - Wholesale – Retail Sales



Corporate Profit (Billions of Dollars, SA) 1975-2011*

Source: BEA

Recession Periods



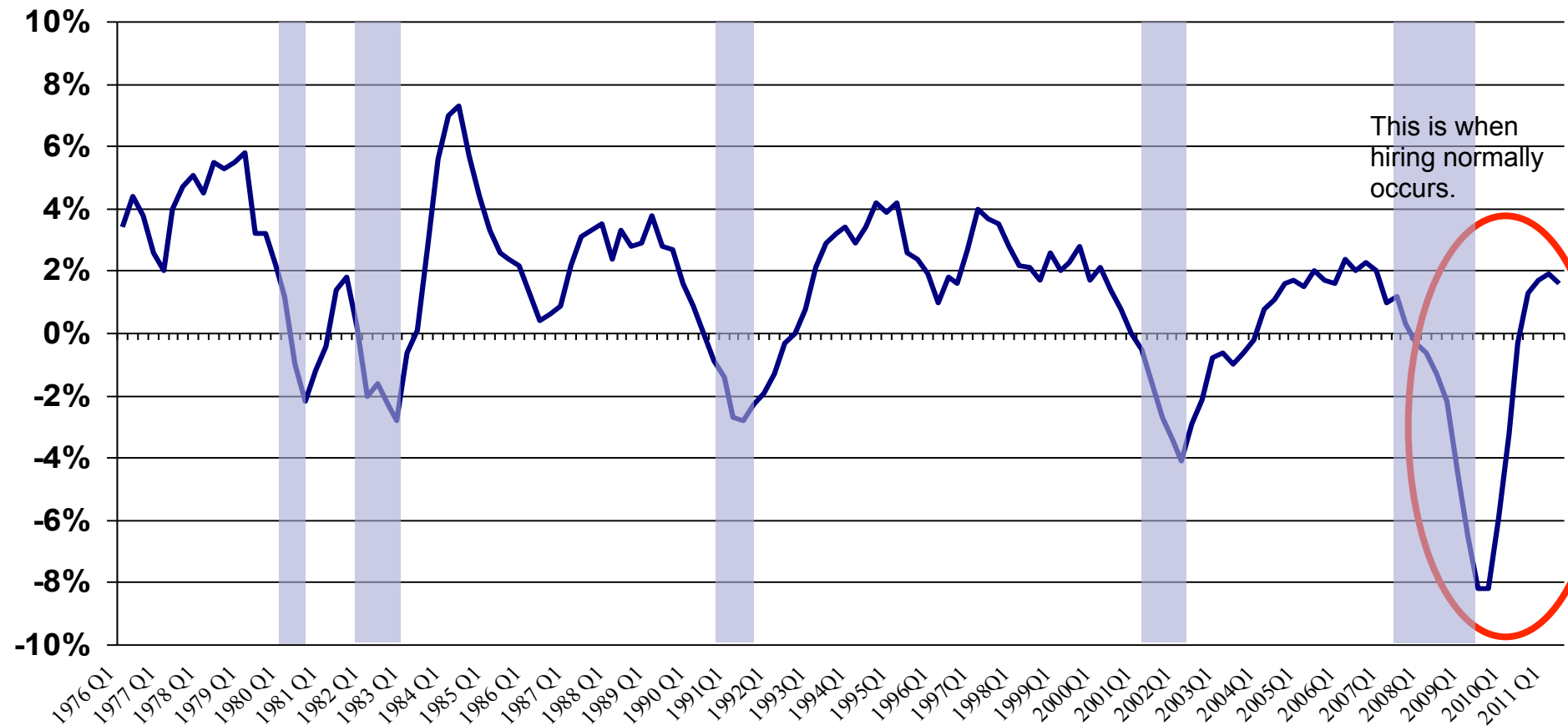
*Data through second quarter 2011



Hours Worked Percent Change from Year Ago 1976 – 2011*

Source: Bureau of Labor Statistics

Recession Periods

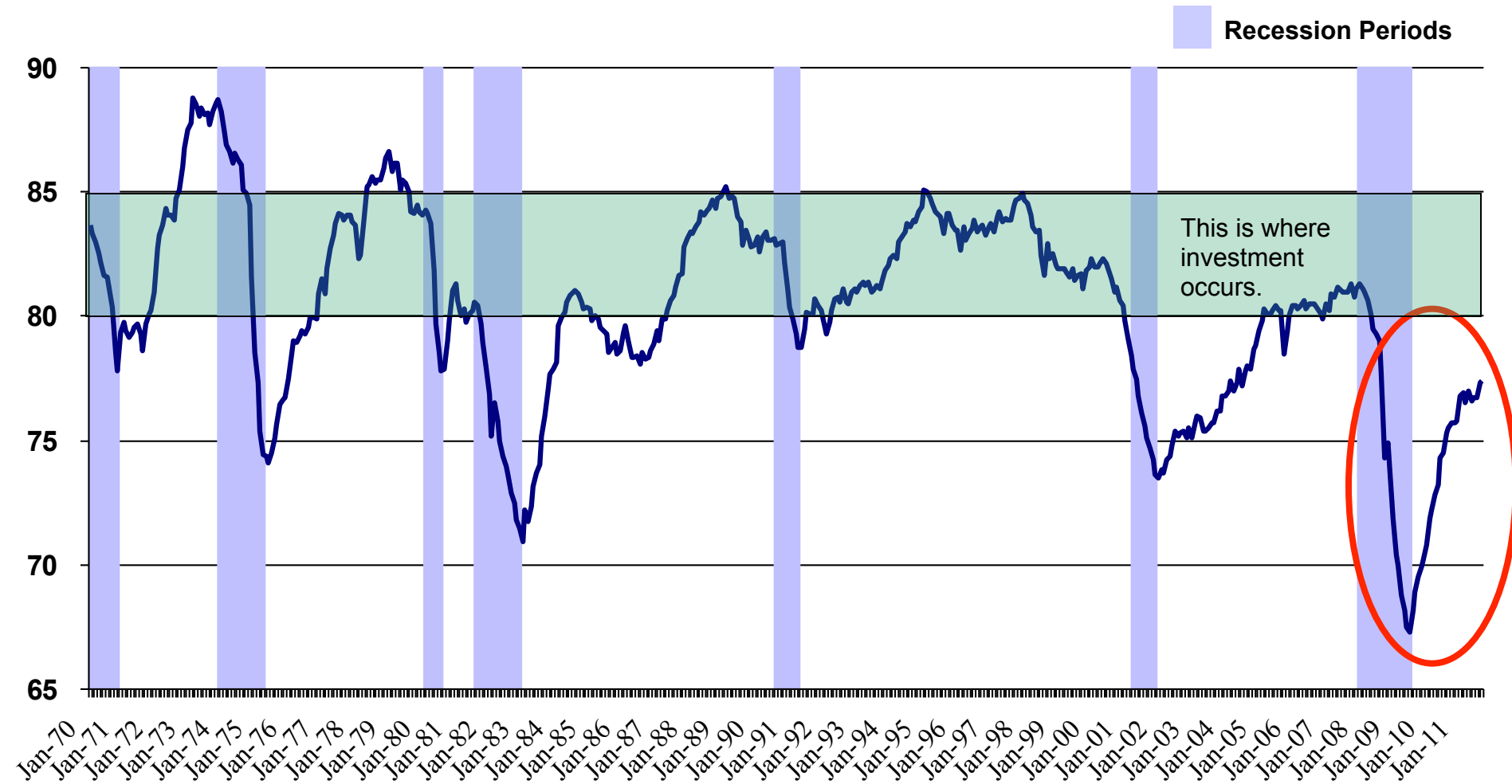


*Data through second quarter 2011



Capacity Utilization Rate 1970 – 2011*

Source: The Conference Board

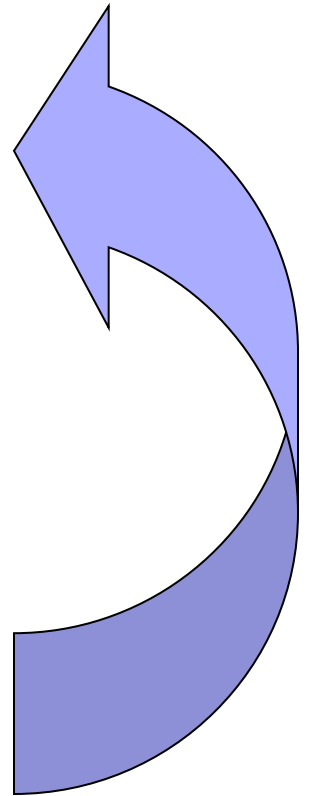


*Data through August 2011



Deleveraging & Liquidity Traps

- Consumers (& businesses) are worried,
- Thus, they are saving more and trying to get out of debt,
- So, spending less than normal,
- Means less demand for products/services,
- Means less demand for labor and capital, and falling profits,
- Means more worry for the employed (aka consumers/businesses).



Deleveraging & Liquidity Traps

- Federal Government was already borrowing and spending too much,
- “Stimulus” has also been inefficient,
- Thus, cannot afford more (so no Keynesian spending benefit),
- Monetary policy is now of limited benefit as well,
- Interest rates are low and little borrowing/lending.
- Need more certainty. How?





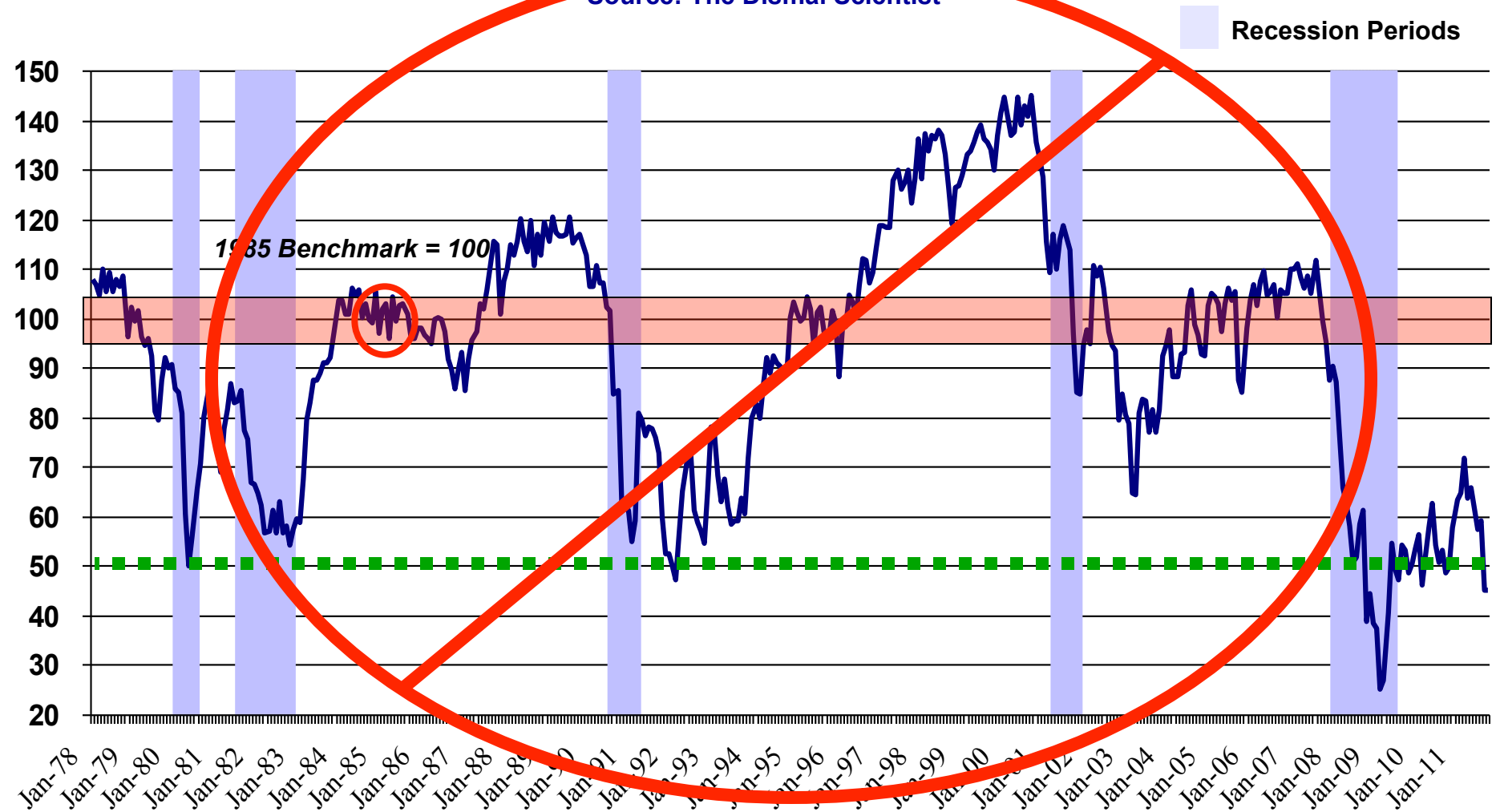
What not to look at just yet...



Consumer Confidence

1978 – 2011*

Source: The Dismal Scientist



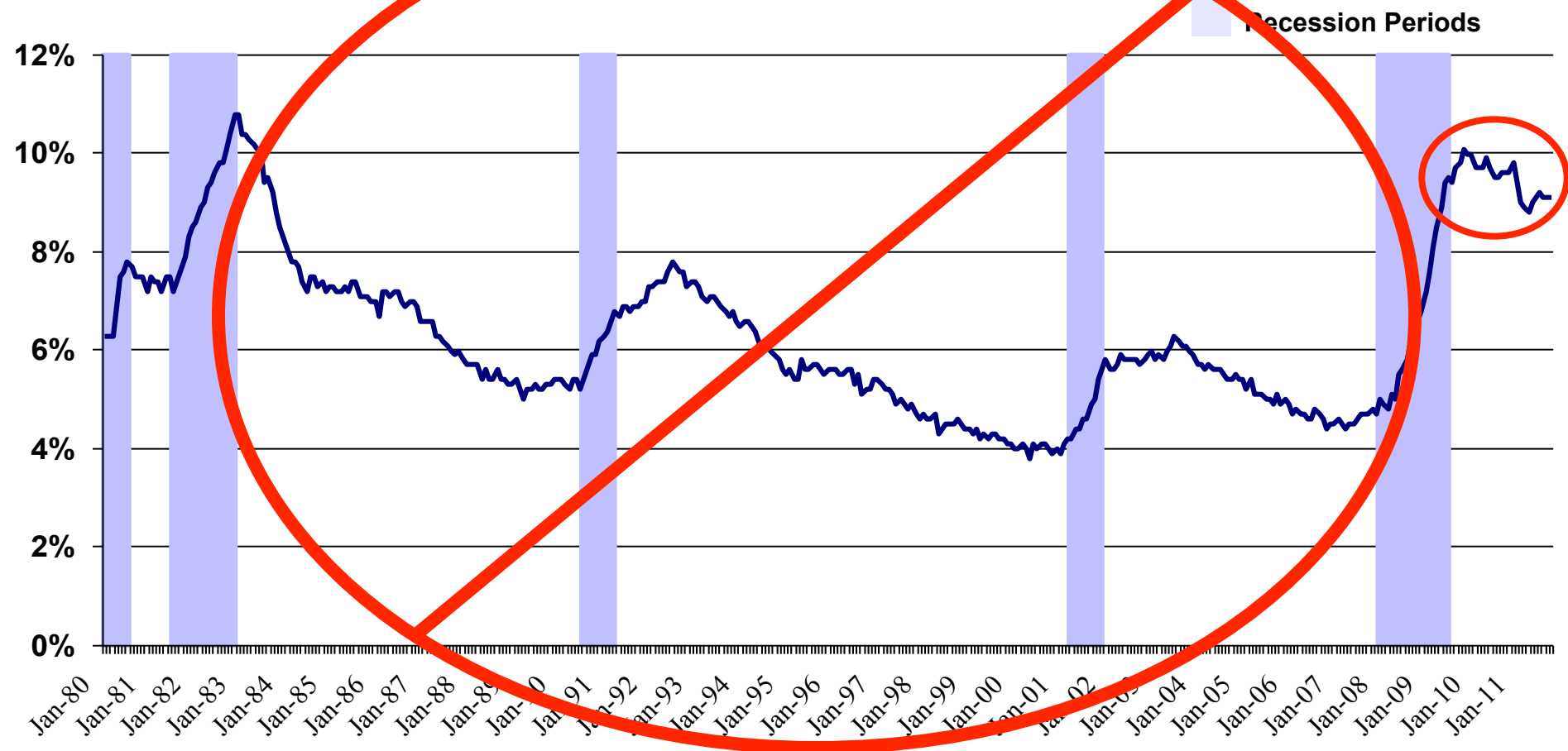
*Data through September 2011



U.S. Unemployment Rate

1980 – 2011*

Source: Bureau of Labor Statistics



*Data through Sep 2011

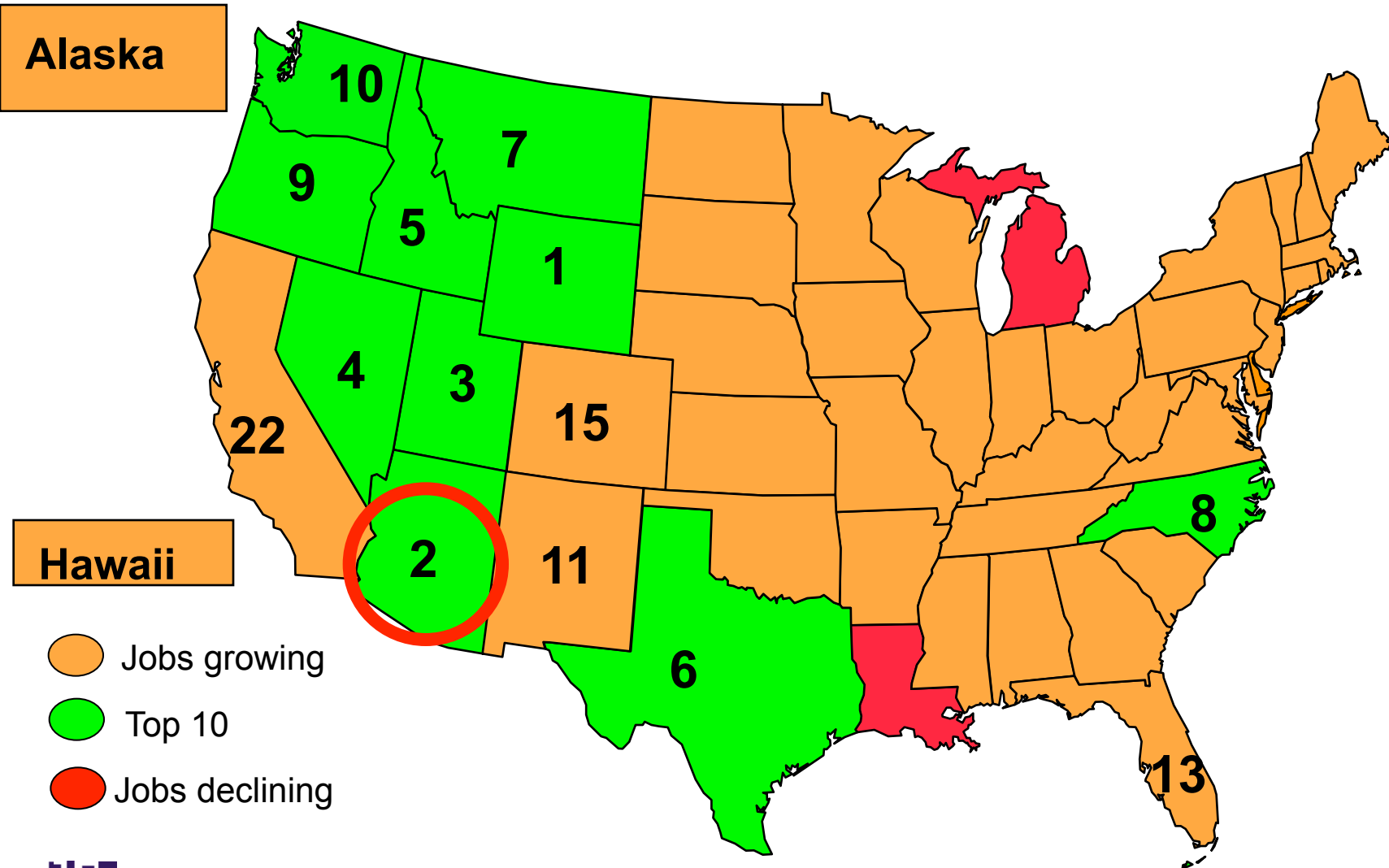


Arizona



Job Growth 2006

Source: US BLS

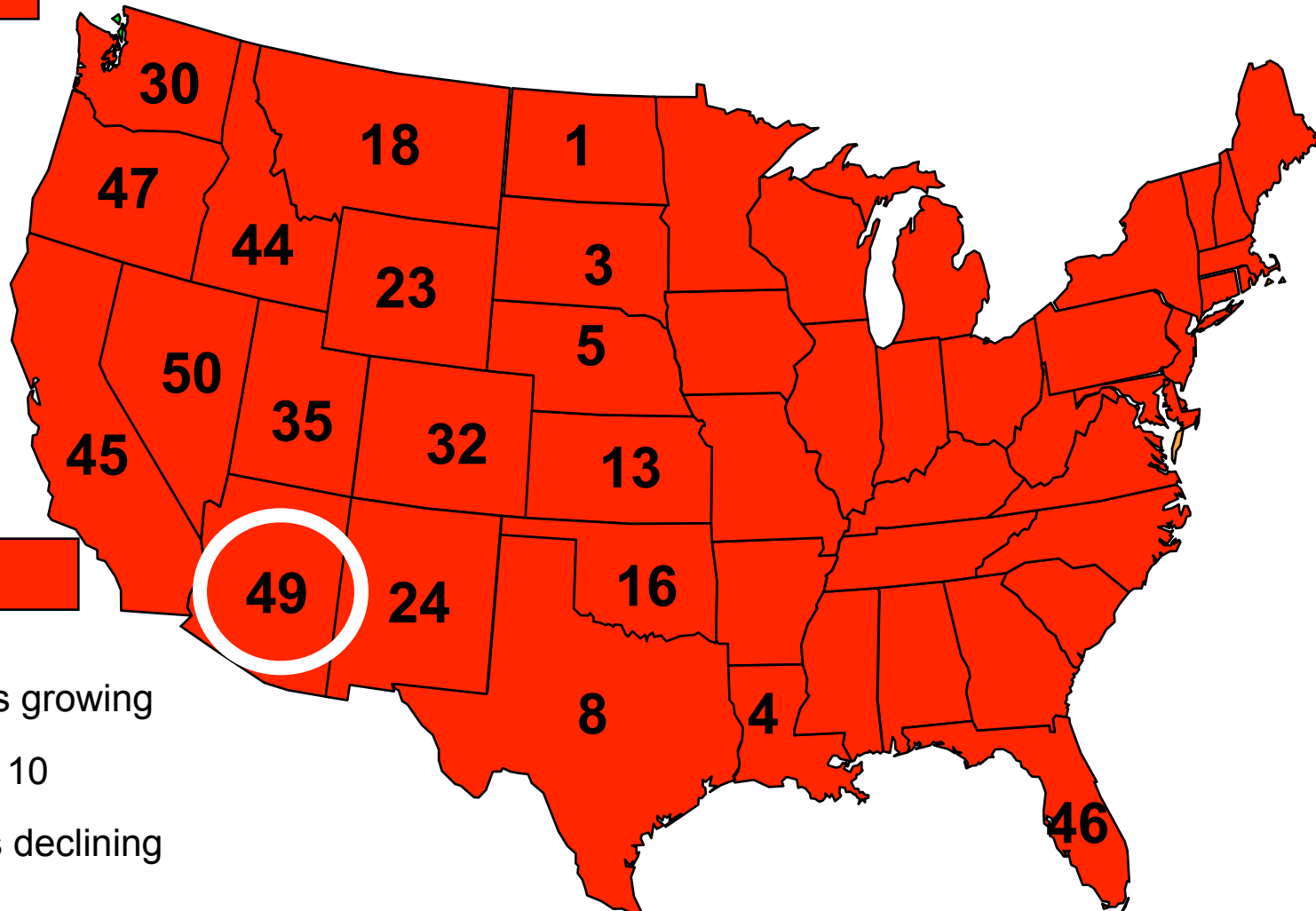


Job Growth 2009

Source: US BLS

Alaska

2



Hawaii

- Jobs growing
- Top 10
- Jobs declining



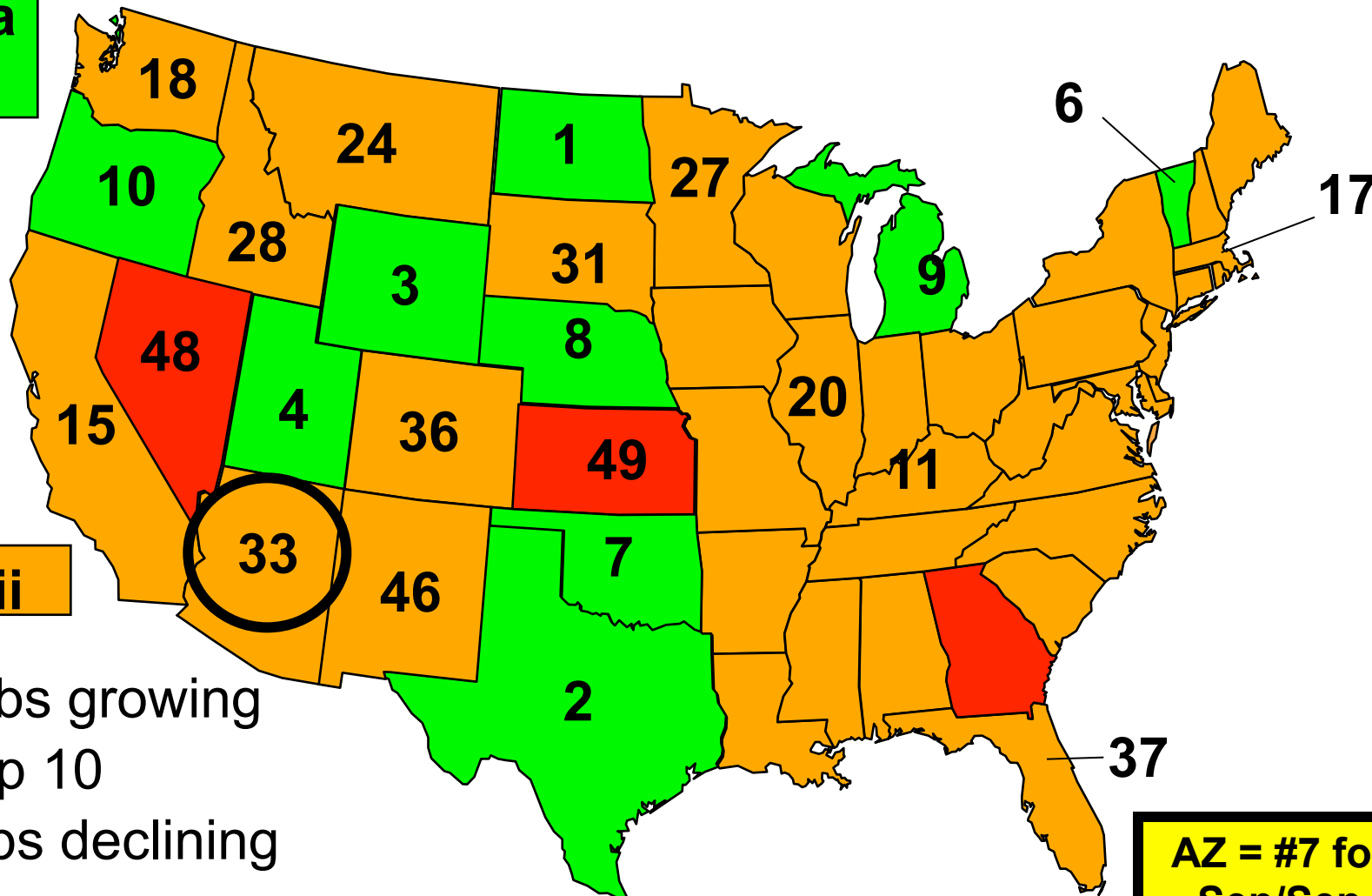
Elliott D. Pollack & Company

Job Growth Update: Arizona Ranked 33rd

September YTD 2011 vs September YTD 2010

Alaska

5



13

Hawaii



Jobs growing



Top 10



Jobs declining



Elliott D. Pollack & Company

AZ = #7 for
Sep/Sep.

YTD State Rank - September

Rank	State	2011 YTD	2010 YTD	Growth
1	North Dakota	388.8	371.9	4.56%
2	Texas	10531.1	10294.4	2.30%
3	Wyoming	287.8	282.1	2.02%
4	Utah	1199.2	1175.6	2.01%
5	Alaska	332.6	326.2	1.95%
6	Vermont	301.0	295.4	1.90%
7	Oklahoma	1548.0	1521.5	1.74%
8	Nebraska	951.7	936.0	1.68%
9	Michigan	3902.4	3840.9	1.60%
10	Oregon	1617.8	1593.1	1.55%
11	Kentucky	1786.6	1761.7	1.41%
12	Ohio	5077.3	5010.0	1.34%
13	Hawaii	591.8	584.1	1.32%
14	New Hampshire	628.1	620.2	1.28%
15	California	14020.3	13848.7	1.24%
16	Pennsylvania	5657.5	5589.6	1.22%
17	Massachusetts	3213.8	3175.3	1.21%
18	Washington	2803.8	2770.4	1.21%
19	Louisiana	1901.8	1879.9	1.17%
20	Illinois	5649.5	5588.7	1.09%
21	Connecticut	1615.5	1598.9	1.04%
22	Arkansas	1170.1	1158.5	1.00%
23	Wisconsin	2753.1	2726.1	0.99%
24	Montana	431.7	427.5	0.98%
25	South Carolina	1818.6	1801.4	0.95%
26	Iowa	1475.8	1462.3	0.93%
27	Minnesota	2650.7	2627.3	0.89%
28	Idaho	606.1	600.9	0.86%
29	Tennessee	2622.9	2601.1	0.84%
30	New York	8585.0	8514.1	0.83%
31	South Dakota	405.1	401.9	0.79%
32	Maine	594.5	589.9	0.78%
33	Arizona	2386.2	2369.9	0.69%
34	West Virginia	747.7	742.9	0.65%
35	Rhode Island	459.9	457.0	0.65%
36	Colorado	2229.3	2215.2	0.64%
37	Florida	7203.4	7162.8	0.57%
38	Mississippi	1093.1	1087.0	0.56%
39	Virginia	3637.8	3617.6	0.56%
40	North Carolina	3866.8	3851.7	0.39%



State Rank -Month of September				
Rank	State	2010	2011	Growth
1	North Dakota	382.6	401.7	4.99%
2	Wyoming	290.9	299.5	2.96%
3	Oklahoma	1525.9	1571	2.96%
4	Utah	1192.7	1225.5	2.75%
5	Texas	10364.5	10613.2	2.40%
6	Louisiana	1883.3	1924.6	2.19%
7	Arizona	2363.5	2415.1	2.18%
8	Vermont	299.2	305.7	2.17%
9	Nebraska	941.3	960.4	2.03%
10	California	13865.5	14099.2	1.69%
11	Montana	434.7	441.7	1.61%
12	Massachusetts	3204.9	3254.4	1.54%
13	Oregon	1605.6	1629.6	1.49%
14	Washington	2788.4	2829.1	1.46%
15	Hawaii	584.4	592.6	1.40%
16	Michigan	3909.1	3958.5	1.26%
17	Ohio	5068.7	5125.5	1.12%
18	Kentucky	1780.5	1800.1	1.10%
19	Alaska	339.2	342.9	1.09%
20	Florida	7135.8	7213	1.08%
21	Minnesota	2652.8	2680.9	1.06%
22	New York	8554.6	8645	1.06%
23	Idaho	610.9	617.2	1.03%
24	Iowa	1473.5	1488.6	1.02%
25	Tennessee	2633.3	2658.6	0.96%



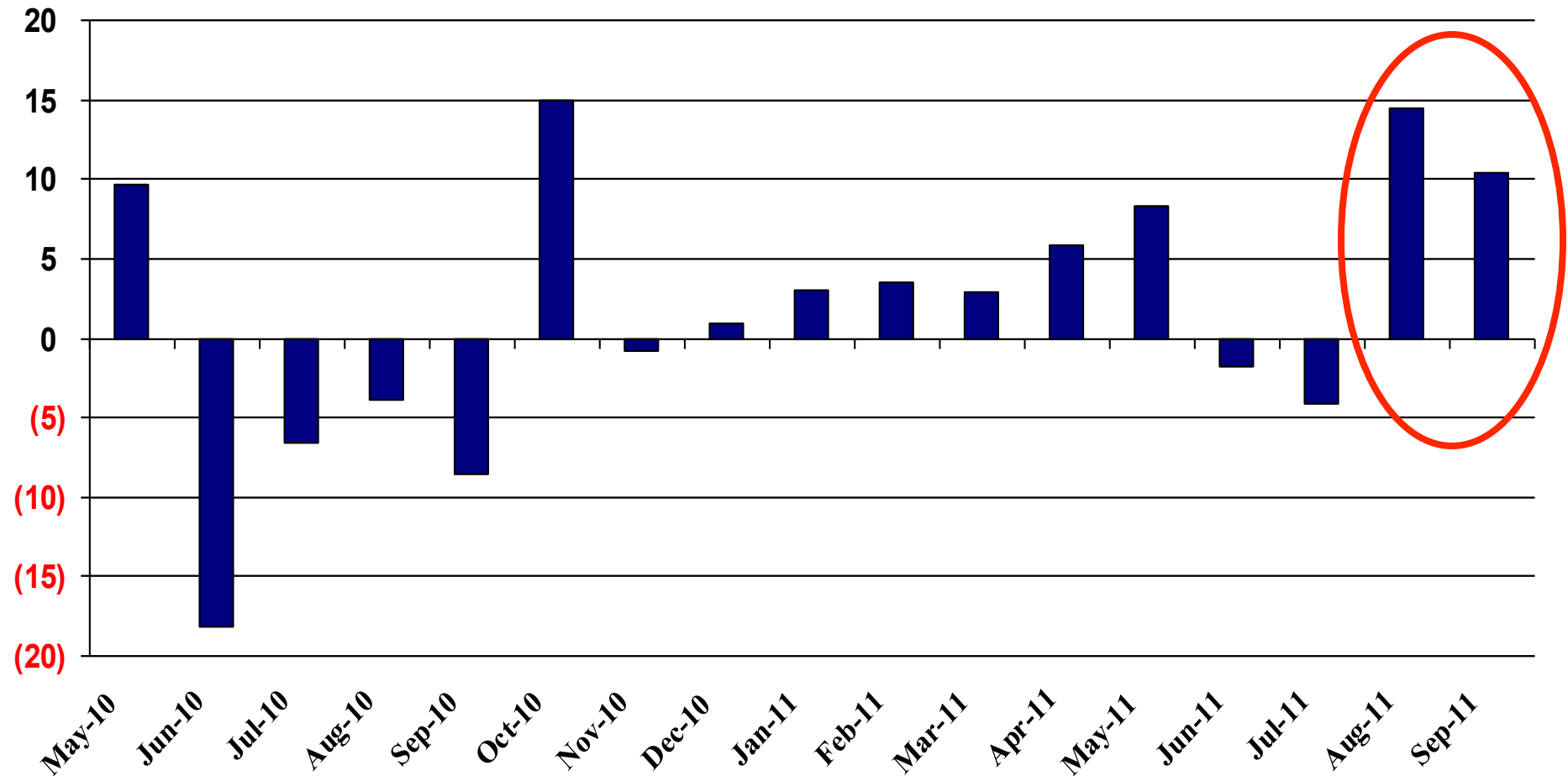
AZ New Job Data

Change from Prior Month (S/A)

May 2010 – September 2011

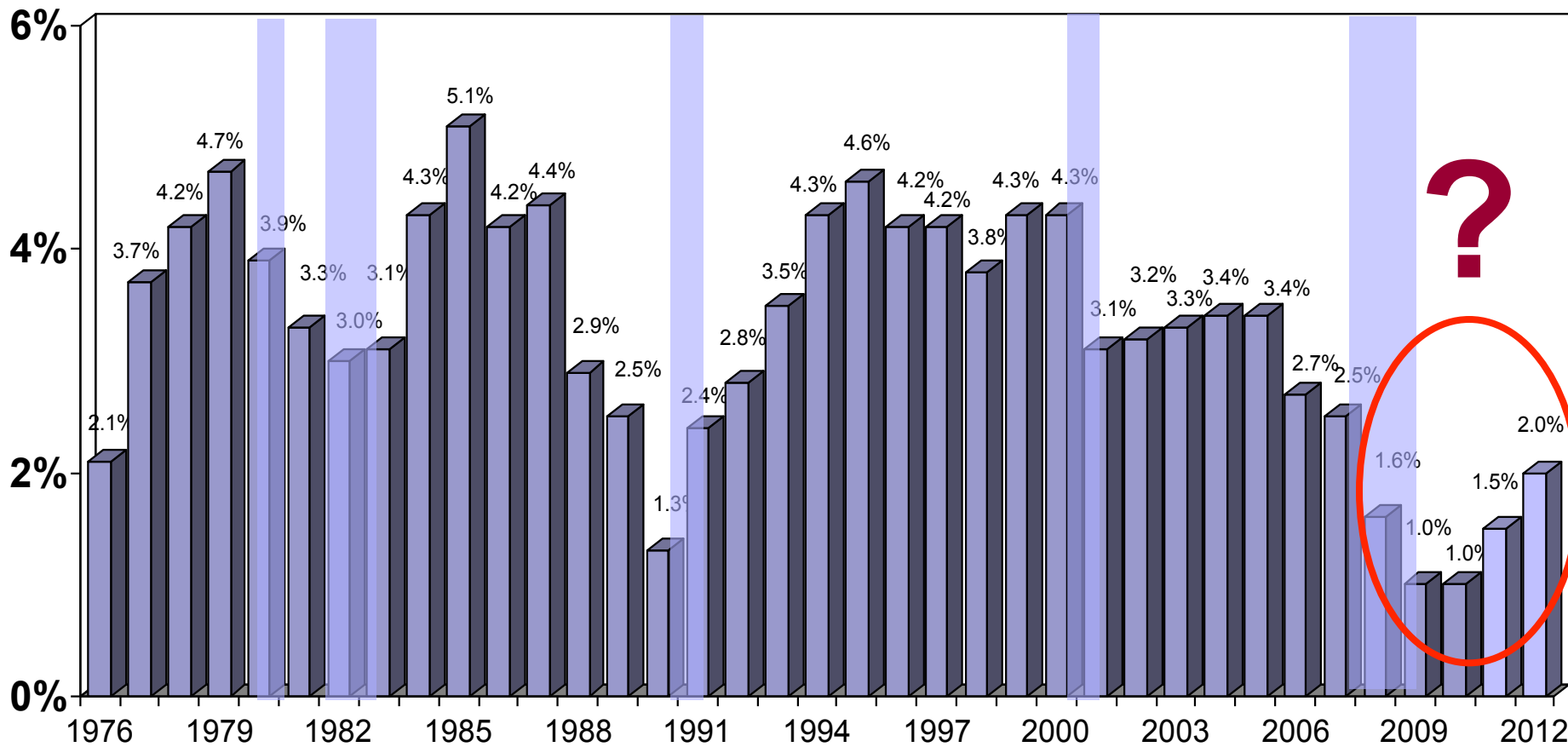
Source: Bureau Labor of Statistics

(000' s)



Greater Phoenix Population Annual Percent Change 1976–2012*

Source: Arizona State University & Department of Commerce, Research Administration



2008 and 2009 are estimates put out by ADES and may be subject to substantial revision.

* 2011 & 2012 forecast is from *Elliott D. Pollack & Co.*

Recession Periods



Elliott D. Pollack & Company

*2000-2010 estimates based on 2010 Census release

Greater Phoenix Employment*

Source: Bureau of Labor Statistics

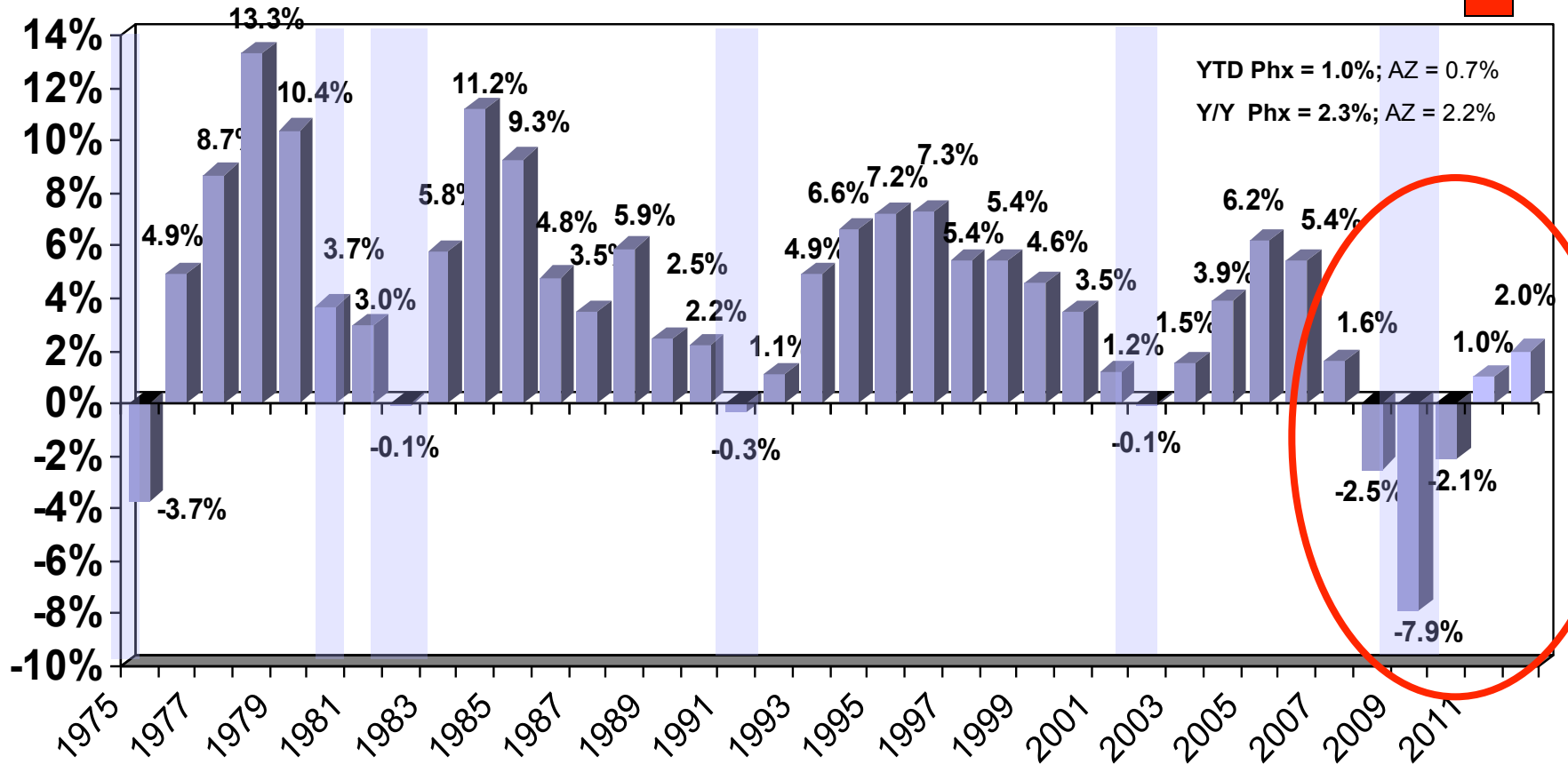
<u>Sectors in Decline</u>	<u>Net Change</u>	<u>Sectors Improving</u>	<u>Net Change</u>
Federal Government	-1,000	Education & Health Services	14,700
Prof. & Bus. Services	-4,200	Leisure & Hospitality	7,100
		Transp, Trade, & Utilities	4,900
		Construction	2,300
		Financial Activities	2,300
		Manufacturing	1,900
		Other services	1,800
		State Government	600
		Local Government	400
		Mining	300
		Information	200



Greater Phoenix Employment*

Annual Percent Change 1975–2012**

Source: Department of Commerce, Research Administration



Recession Periods



Elliott D. Pollack & Company

*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

** 2011 & 2012 forecast is from Elliott D. Pollack & Co.



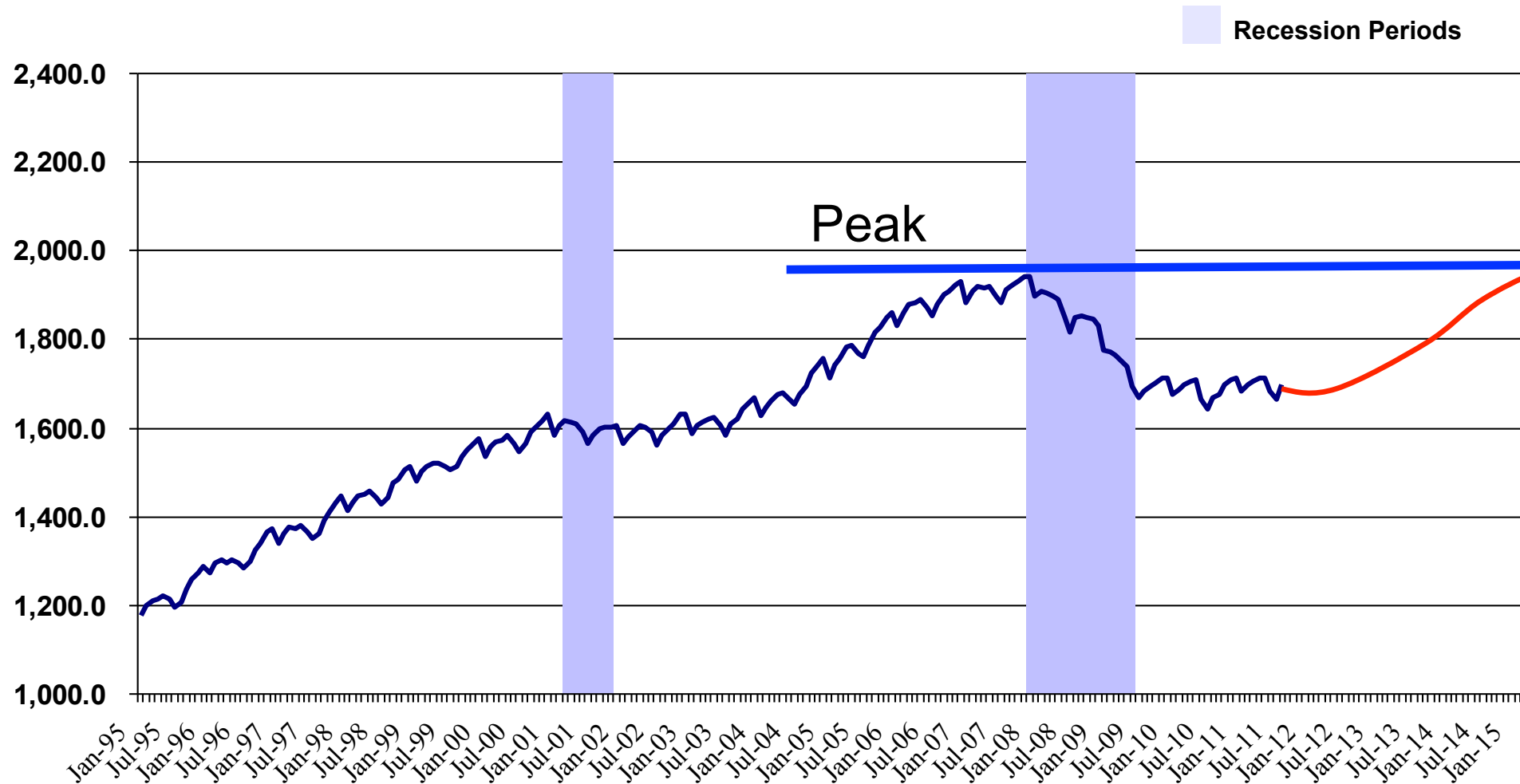
**This is NOT a multi decade
recovery...**

**Think 2015 – 2016 for full
recovery, but growth before
then.**




Employment Levels: Greater Phoenix/AZ* Back to Peak by 2015? 2016?

Source: ADOA



*As of August 2011





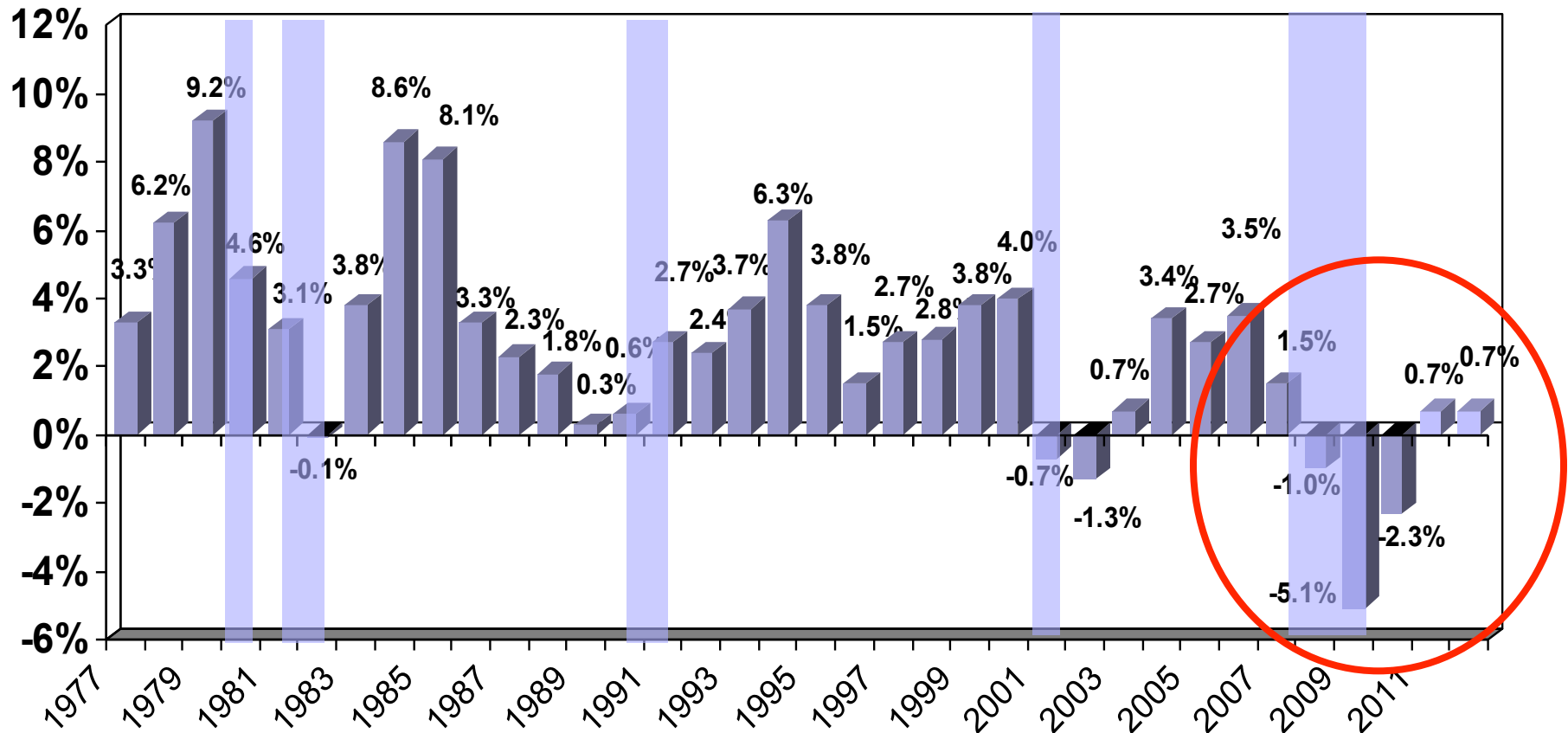
**For individual
communities: similar
issues, just different
scale of impact.**



Greater Tucson MSA Employment*

Annual Percent Change 1975–2012**

Source: Department of Commerce, Research Administration



*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

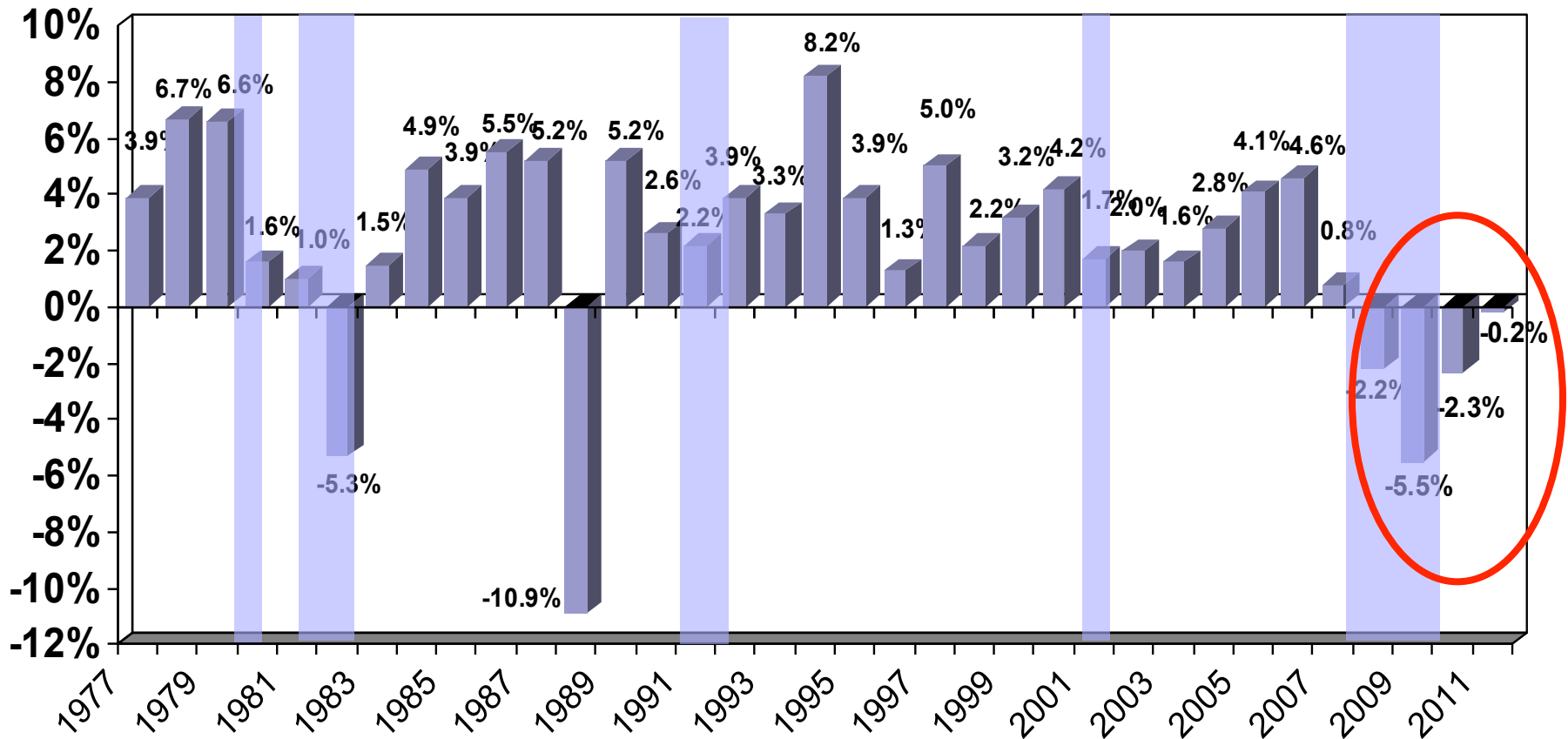
**2011 & 2012 are forecasts from the University of Arizona



Balance of State Employment*

Annual Percent Change 1977–2011**

Source: Department of Commerce, Research Administration



*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

** Data through August 2011

Recession Periods

Single Family Housing

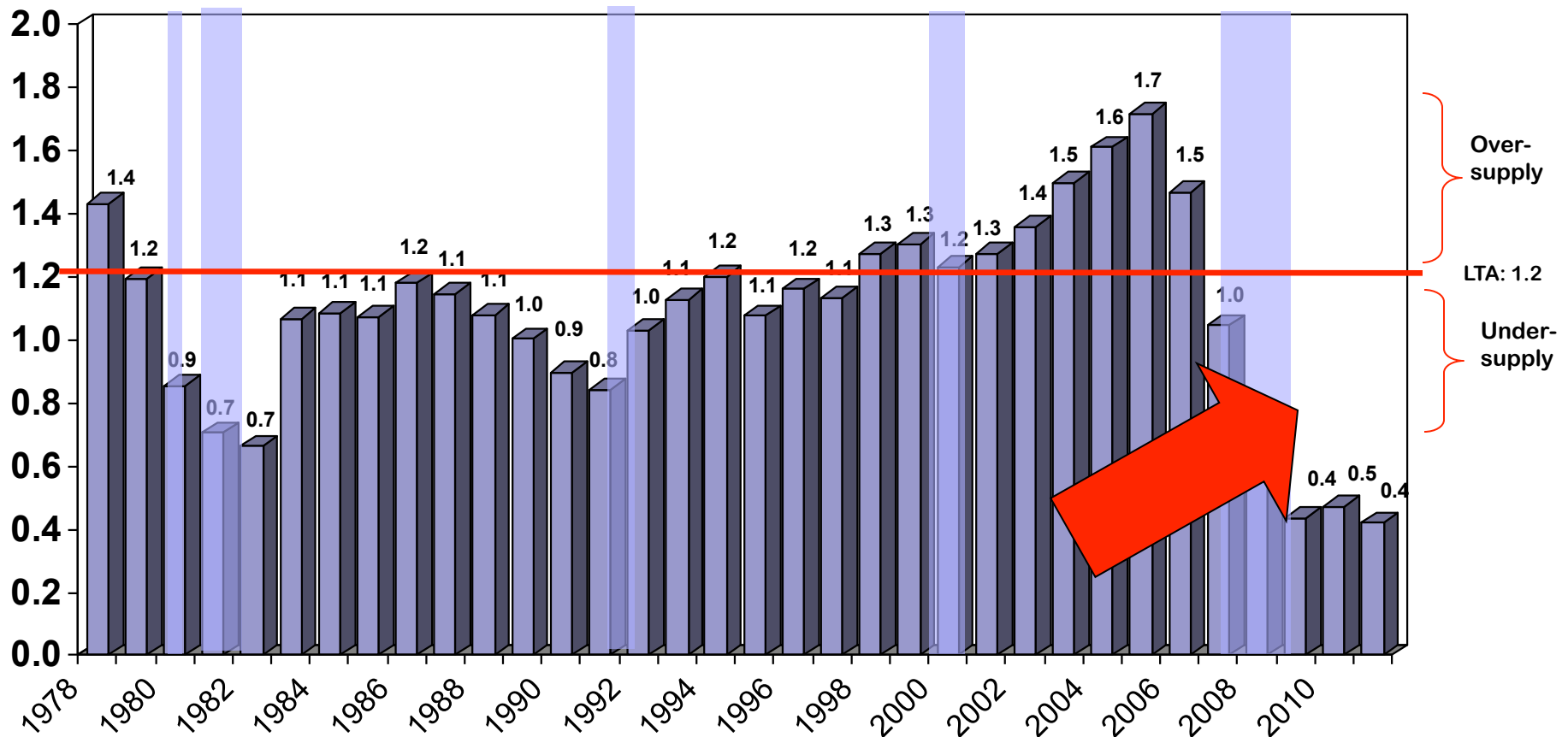


U.S. Single-Family Starts 1978–2011^{1/}

(Millions)

Source: Census Bureau

Recession Periods

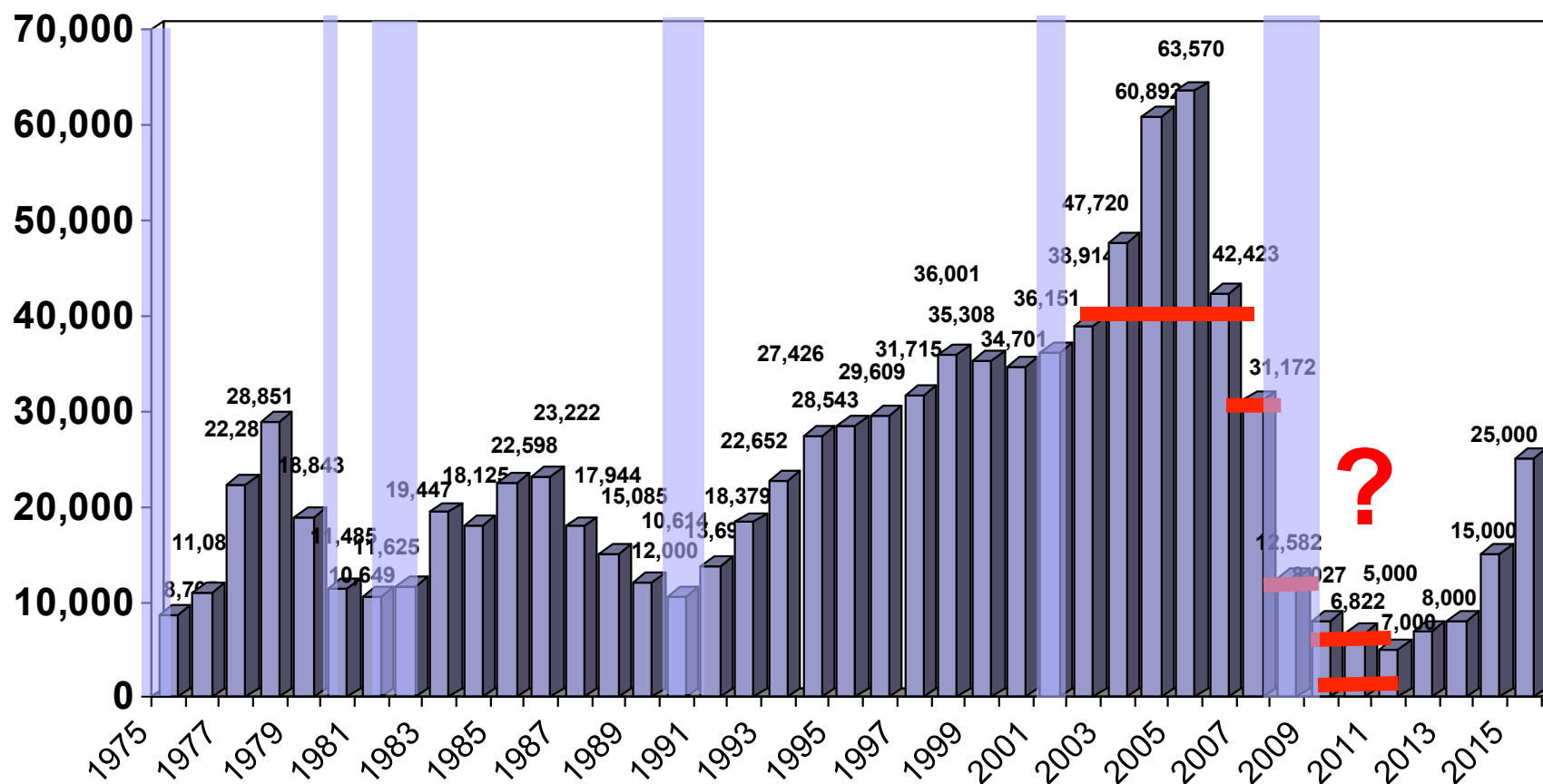


Single-Family Permits vs. Population Demand Greater Phoenix 1975–2015

Permits

Source: PMHS / RL Brown

Recession Periods



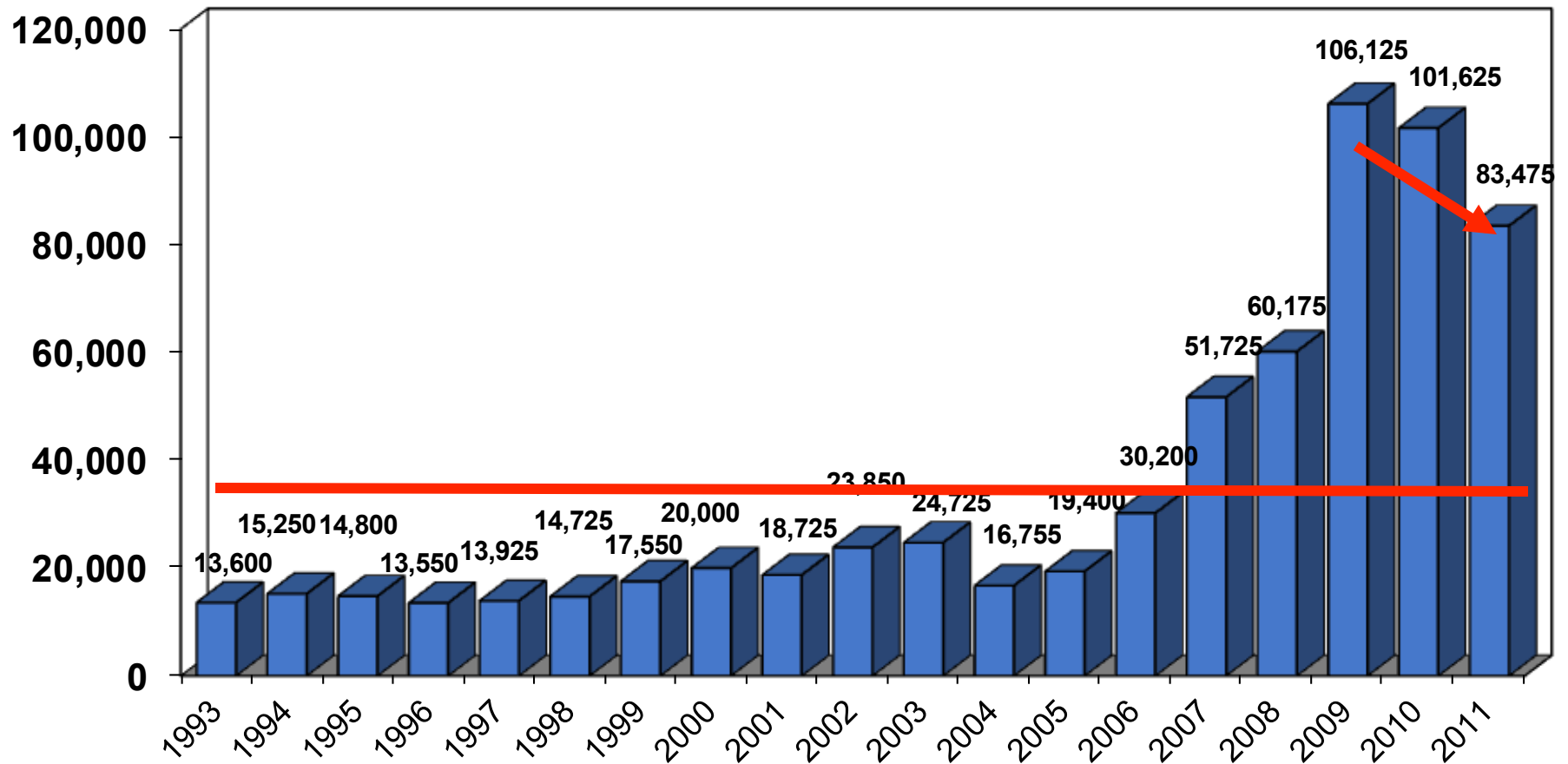
* 2011 - 2015 forecast is from Elliott D. Pollack & Co.



Elliott D. Pollack & Company

Single-Family Vacant Units Maricopa County 1993–2010

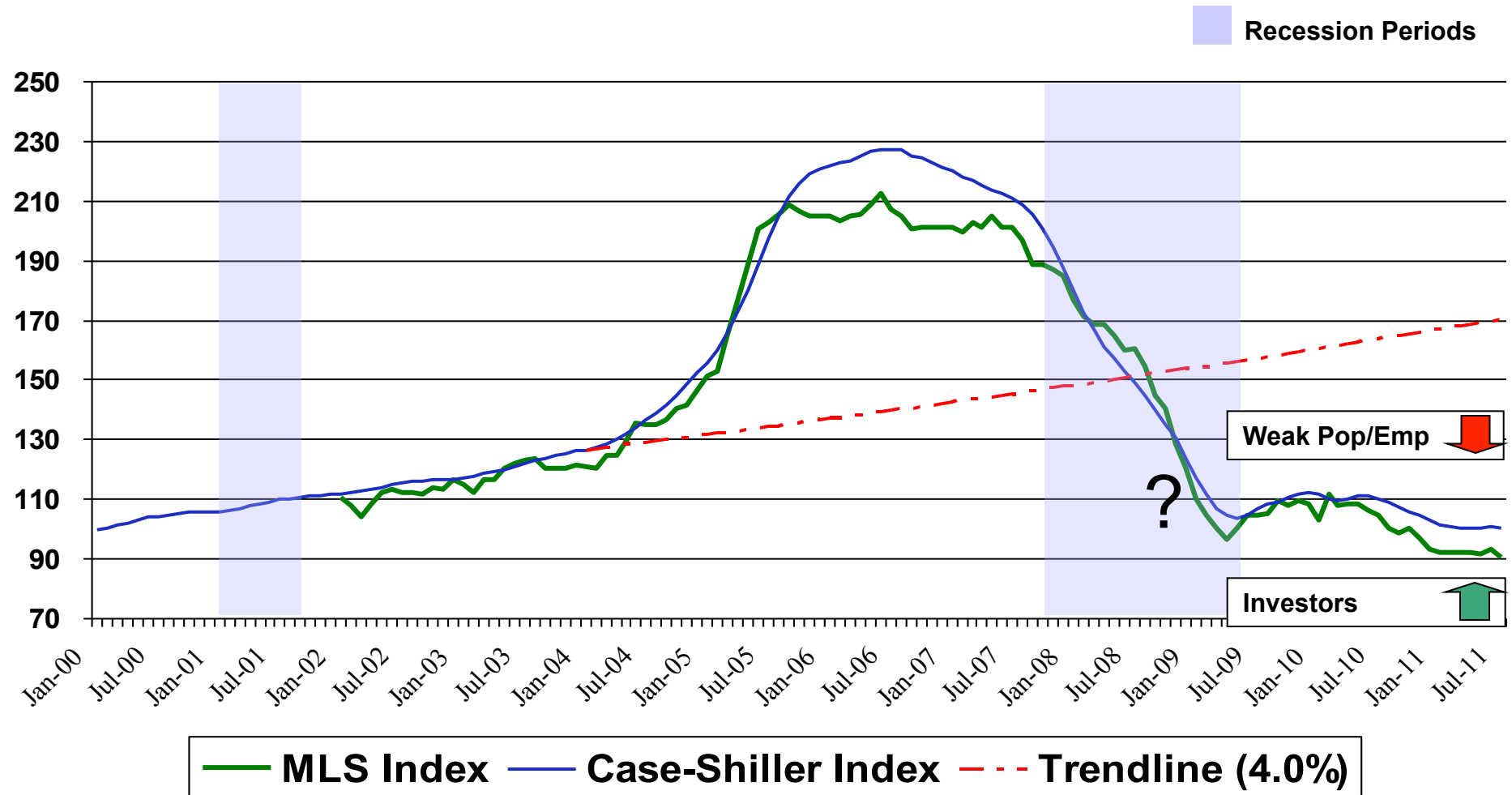
Source: PMHS



Home Prices Indices

2000 – 2011 (June)

Source: Macro Markets, LLC; AMLS





Negative Equity in Homes Affects Ability to Sell or Buy

Source: First American Core Logic

**50% of homes with mortgages in
Arizona have negative equity.**

But only 25% nationally.



Commercial



Commercial Markets

(Not making things worse
anymore)





**How long will commercial
values be depressed?**

Investor run?



Back to Normal Vacancy?

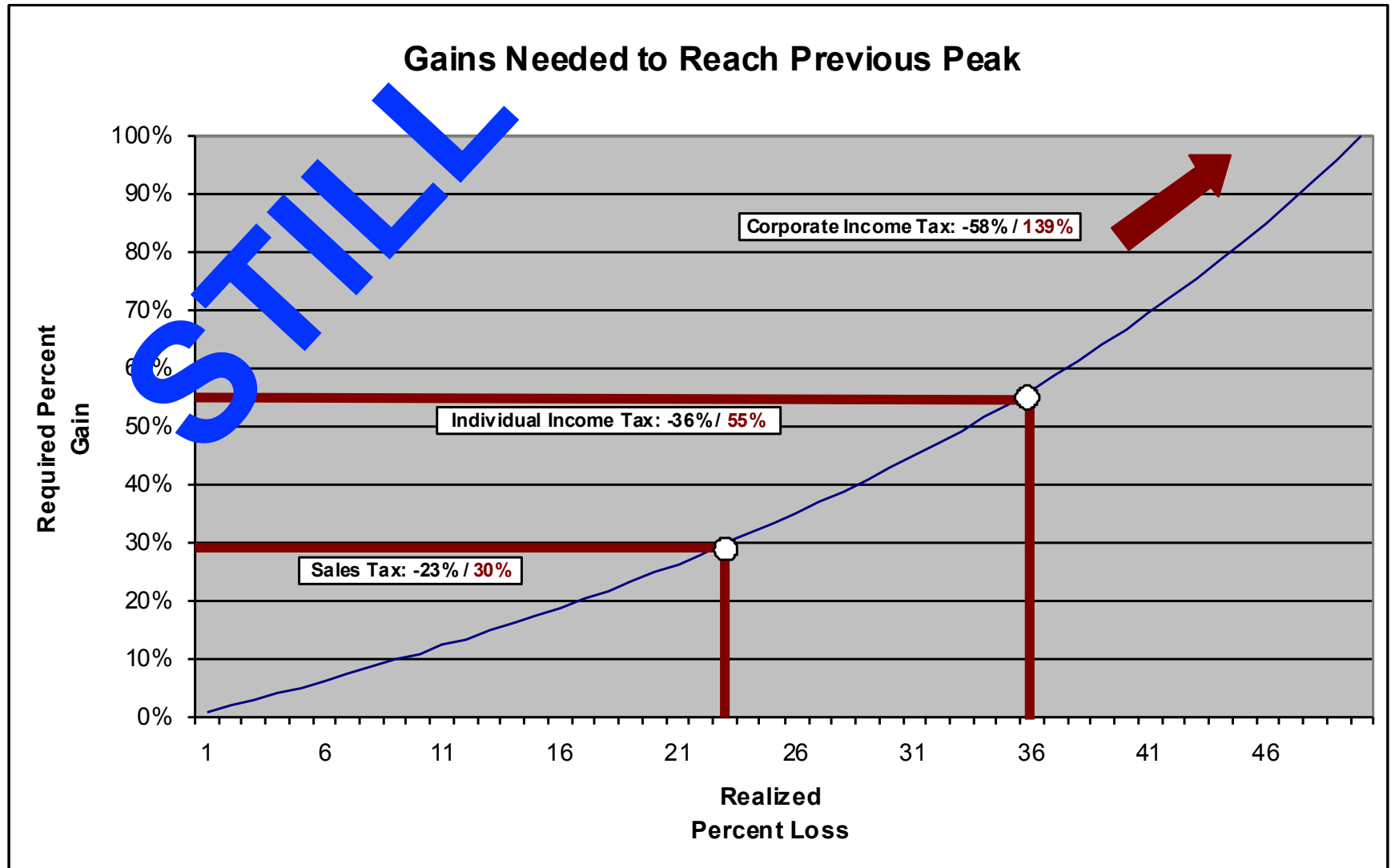
- Office = 2014 - 2015
- Industrial = 2014 - 2015
- Retail = 2014 - 2015



Tax Revenues



State forecast revisions in our future?





**But, local revenues related
to single family and
commercial taxation will
remain weak.**



Arizona Summary



Performance Measures?

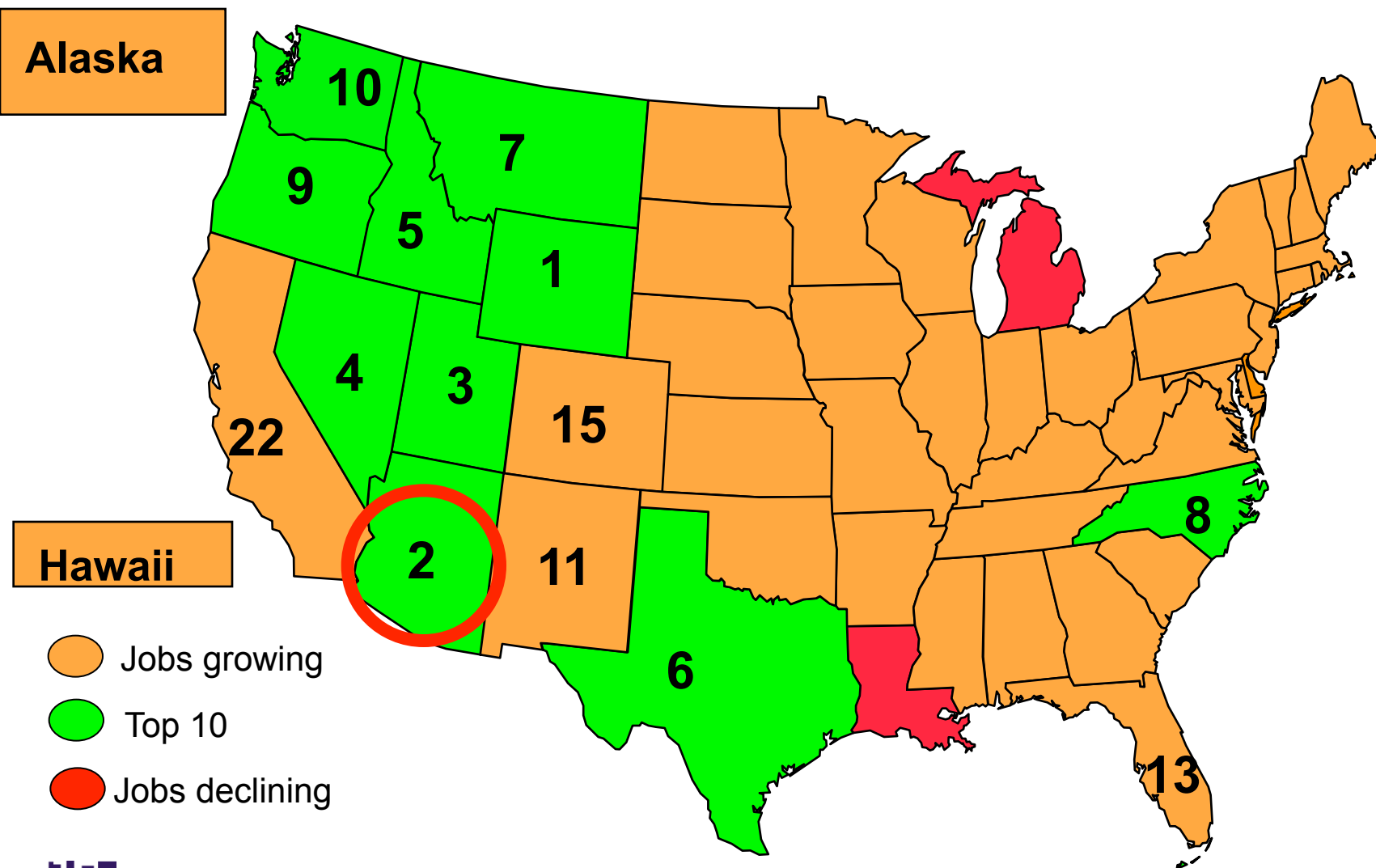
Falling far results in:

- Strong rates of growth that seemingly don't match the reported "levels" of activity.
- Strong rankings that seemingly don't match what we read in the paper.
- Panic and opinions that the world is 100% different than before. Not necessarily true, we need to maintain some perspective.



Job Growth ~~2006~~ 2013/2014?

Source: US BLS



Full Recovery: STILL 2015?

Fully recovered in terms of:

- 1) Housing oversupply;
- 2) Commercial vacancy rates;
- 3) Retail sales activity;
- 4) Employment levels.
- 5) Tax revenues? Probably.





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